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Financing for development: progress and prospects

Note by the Secretary-General

Summary

The present note, which highlights the main findings of the 2018 report of the Inter-Agency Task Force on Financing for Development, provides a first assessment of progress in implementing the financing for development outcomes. In its report, the Inter-Agency Task force draws on the expertise, analysis and data collected by over 50 members of the Task Force. The Task Force also explores financing for the Sustainable Development Goals, which will be reviewed in depth at the high-level political forum on sustainable development in 2018, and discusses progress in the seven action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, and corresponding issues concerning data.

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I. Introduction

1. In 2017, most types of development financing flows increased and there was progress across all the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. That progress was underpinned by a broad-based upturn in the global economy, increased investment and supportive financial market conditions. Although not evenly distributed — per capita growth remained negative or insignificant in many countries where poverty rates are high — the positive momentum is expected to continue and provide a platform for further progress in financing for development and the implementation of the Sustainable Development Goals.

2. The cyclical upturn in the global economy, however, masks significant weaknesses and medium-term risks. A disorderly tightening of financial conditions and associated increases in interest rates and debt vulnerabilities, the adoption of inward-looking policies or an escalation of geopolitical tensions could derail development progress. Persistent high levels of inequality pose a challenge to robust growth and sustainable development. The decline in private investment in infrastructure, along with the renewed increase in global carbon emissions in 2017, is a stark reminder of the inability, so far, to sufficiently align investment with long-term sustainable development. If left unaddressed, structural impediments will continue to undermine prospects for sustainable development. The current cyclical upturn provides an opportunity to focus policymaking on addressing long-standing concerns and to accelerate the pace of progress towards the Sustainable Development Goals. The Addis Ababa Action Agenda offers a framework for individual actions and international cooperation towards this end. The 2018 report of the Inter-Agency Task Force on Financing for Development assesses progress and gaps across the seven action areas and provides policy options to put the world on the path to more sustainable growth and development.

3. Several overarching messages have emerged from the analysis by the Task Force, including the following:

(a) Integrated national sustainable development strategies and financing frameworks must inform policies, plans and project pipelines. Integrated strategies provide a long-term vision that reaches beyond short-term political cycles and overcomes siloed thinking. Strategies should incorporate medium-term policies, plans and regulatory frameworks. National actions also need to be supported by a global enabling environment that can facilitate long-term and quality investments, particularly in developing countries;

(b) Incentives for actors in public and private financial institutions need to be aligned with long-term sustainable development. Without a long-term investment horizon, certain risks, such as those arising from climate change, will not be incorporated into decision-making processes. Incentive structures need to be reviewed across the financial system and aligned with the Sustainable Development Goals;

(c) Public, private and blended financing contribute to financing investments in the Sustainable Development Goals. Innovative instruments and approaches are rapidly changing the development finance landscape. Project and country characteristics and national policy priorities will determine the financing model best suited for specific investments and which actors are best positioned to manage investment risks and provide services in an equitable and cost-effective manner;

(d) Public policies and action are at the heart of the Addis Ababa Action Agenda. Public leadership is indispensable in order to establish rules, provide guidance, promote coherence and overcome constraints that impede sustainable development-oriented structural transformation.

4. Three cross-cutting issues are addressed throughout the report:

(a) New technologies support progress across the Sustainable Development Goals and the action areas of the Addis Ababa Action Agenda. They provide new possibilities for addressing long-standing development challenges, but their transformative power also raises complex challenges and puts adaptive pressure on economies and societies, including on their labour markets;

(b) Gender equality must be addressed at every point in policymaking and programming. Gender inequalities persist across the Addis Ababa Action Agenda. Such inequality threatens the success in the implementation of the 2030 Agenda for Sustainable Development and also weakens inclusive growth prospects. Gender equality needs to be mainstreamed included in fiscal policies, business, access to finance and development cooperation. All financing policies need to be monitored for their impact on gender equality, and such monitoring will require increased availability of sex-disaggregated data.

(c) Focus needs to remain firmly on the poorest and most vulnerable, to ensure that no one is left behind. Financing and capacity gaps are greatest in the countries with the least ability to narrow such gaps, in particular the least developed countries and small island developing States. International commitments for vulnerable countries need to be met and their interests and concerns considered in international norm-setting and policymaking.

5. In the 2018 report of the Inter-Agency Task Force on Financing for Development the challenges to financing the Sustainable Development Goals, which will be subject to an in-depth review at the high-level political forum on sustainable development, in 2018, are examined in order to contribute to the assessment of progress in the means of implementation for the Goals. In the report, the seven action areas of the Addis Ababa Action Agenda and corresponding issues concerning data are presented as the building blocks for the implementation of the 2030 Agenda for Sustainable Development and the achievement of the Sustainable Development Goals. The recommendations by the Task Force in each of the action areas are summarized below and described in detail in the full report.

II. Key messages and recommendations of the 2018 report by the Inter-Agency Task Force on Financing for Development

Financing investment in selected Sustainable Development Goals

6. Closing the global infrastructure gap has become a major priority for the international community. Several new initiatives, as called for in the Addis Ababa Action Agenda, have been launched, including the Global Infrastructure Forum, as well as other infrastructure platforms and facilities and new development banks and finance institutions. Major challenges remain, however, to scale up investments in the Sustainable Development Goals in infrastructure and other areas. To support countries in this effort, the report of the Inter-Agency Task Force examines the challenges related to financing the Sustainable Development Goals, which will be reviewed at the high-level political forum on sustainable development in 2018, namely, for Goals 6 (clean water and sanitation), 7 (affordable and clean energy), 11 (sustainable cities and communities), 12 (responsible consumption and production) and 15 (life on land).

7. While the financing models for each of the Sustainable Development Goals under review draw on all seven action areas of the Addis Ababa Action Agenda, a key

question underlying many of the international debates is what role public, private and blended financing should play. The Addis Ababa Action Agenda stresses that all sources of financing are needed and that they are complementary, with different objectives and characteristics that make them more or less suitable depending on the context and sector. The Addis Ababa Action Agenda also underlines the potential of blended finance instruments, while calling for careful consideration of their appropriate structure and use.

8. The sectors covered in the chapter on "Financing Investment in selected Sustainable Development Goals" address, for the most part, public services and goods, therefore national and subnational public authorities are ultimately responsible for service delivery, and public policies and actions must be the driving force. An examination of the Sustainable Development Goals under review highlighted several policy priorities, which include:

(a) **Enhancing institutional and regulatory frameworks.** Strong institutions and the rule of law are the starting point for effective economic governance. They need to be coupled with regulatory frameworks that are transparent, consistent and of good quality in order to guide private operators in each sector, manage natural monopolies, encourage innovation, limit bureaucracy and promote universal access to infrastructure services. Without such an enabling environment, investment risks will remain particularly high, and neither public nor private financing or operation is likely to satisfy public need in a cost-efficient manner. A stable international macroeconomic environment is also required to support sustainable long-term investments in the targeted sectors.

(b) **Developing infrastructure plans.** Infrastructure plans should integrate financing frameworks and align with country development strategies. They should provide a long-term vision (beyond the political cycle), include adequate consultations with stakeholders and incorporate assessments of the impact of climate, of climate resilience and gender issues. Infrastructure plans should also serve to coordinate across sectors, taking advantage of synergies and interconnections (e.g. hydropower plants have an impact on energy, water and ecosystems).

(c) **Translating plans into quality project pipelines.** Sufficient human and financial resources, adequately prepared projects and effective procurement and frameworks for public-private partnerships, as applicable, will be required in order to translate plans into project pipelines. In this context, Governments can benefit from multilateral development bank platforms that support the development of replicable and scalable infrastructure projects.

(d) **Strengthening public finance.** Equity, social inclusion and other public good considerations provide a rationale for public engagement through direct financing, subsidies, guarantees or other incentives and/or regulation. In many countries, however, public balance sheets and fiscal space are constrained and debt sustainability is a major concern. This underscores the need for boosting public financial resources, both domestically, largely through improved taxation, and internationally, through official development assistance (ODA). South-South cooperation and other official development finance can play complementary roles.

(e) **Mobilizing the private sector.** The private sector may be involved in the ownership, operation and financing of projects, depending on the country and sector priorities (with most deals focused on finance or operation, and not on privatization, per se). While the private sector can bring cost-efficient solutions, it is also often associated with higher financing costs, because most investors demand a competitive return for the risk they assume. In order to effectively contribute to achieving the Sustainable Development Goals, private financing flows need to be stable and oriented towards results over the long term.

(f) **Supporting sustainability through price adjustment.** Where socially feasible, price signals can address externalities (the "polluter-pays" principle) and support sustainable consumption and production patterns, for example, through carbon pricing or the phasing out of harmful subsidies, taking fully into account the specific needs and conditions of developing countries and minimizing the possible adverse impacts on their development in a manner that protects the poor and the affected communities, as called for in the Addis Ababa Action Agenda.

(g) **Strengthening international cooperation.** Developing countries need significant capacity-building support to make progress in advancing the Sustainable Development Goals under review and create institutions capable of delivering on the ambitious 2030 Agenda.

9. The above-mentioned policy priorities can guide stakeholders as they scale up financing for the Sustainable Development Goals. Previous Task Force reports have also highlighted several factors that should be considered in determining the combinations of private and public ownership, operation and financing of projects, including: (a) whether investments can be sufficiently profitable to compensate private investors for the risks they bear; (b) whether investments produce goods or services that can be effectively supplied by the market, or whether they include public good properties (including positive or negative externalities) that require public involvement; (c) whether public intervention is warranted for social equity reasons; and (d) whether private investors can bring efficiency gains through the profit incentive.

10. For example, investments in ecosystems will largely be publicly financed owing to the public good nature of the sector, though private initiatives may sometimes play a role, often through philanthropy or impact investing.[1] Private financing is most likely to be appropriate in sectors where projects can generate sufficient returns, such as in the energy sector, though with public oversight and, often, with public support. The use of private finance is more challenging in areas where equity considerations and large financing gaps reduce profit prospects, such as water, for example, where various financing models have been utilized.

11. As noted above, the domestic and international enabling environments are critical factors for investment. When the perceived risk of project failure is high, the cost of private finance is likely to be prohibitive. Financing strategies need to take into consideration how to avoid locking in high financial costs that reflect domestic risks for the entire duration of infrastructure projects, which is particularly relevant for countries that are in the process of strengthening their institutions and thus reducing risks. Development banks could assist countries in building such financing strategies. Such considerations as regards financing underscore the importance of public finance, either through direct financing or blended strategies. However, blended strategies can also create contingent liabilities that need to be carefully managed.

12. The scale of financing for the Sustainable Development Goals under review requires mobilizing both domestic and international sources. International financing is often an essential complement to domestic resources, but might generate currency risks that are difficult to manage at the country level. The need to mobilize financing calls for examining whether global approaches allowing the diversification of currency risks could be developed, for instance by development banks.

13. Examining how public and private firms can contribute to the sectors under review, requires a better understanding of the sources of cash flows to maintain operations and cover financing costs. They can come from three main sources: users

[1] Private investors who seek to have a positive social or environmental impact alongside their profit.

(tariffs), public authorities (taxes) and transfers from national to subnational Governments or from external partners. These sources of cash flow provide the basis for mobilizing repayable finance, including concessional and non-concessional finance, which is necessary to realize the required investments in these sectors.

14. The above initial considerations provide a general framework for understanding the capital structure of investments in certain Sustainable Development Goals. Further analysis of sector specificities, however, is necessary to better understand possible financing options and the practical reality of each sector.

Domestic public resources

15. Domestic public finance is essential for providing public goods and services, increasing equality, supporting macroeconomic stability and achieving the Sustainable Development Goals. Public finance encompasses raising revenue, budgeting its use and expenditure on public programmes, and investment. All parts of the public finance process should aim to align with country priorities and the 2030 Agenda for Sustainable Development.

16. Tax structures affect society and the economy in many ways beyond a narrow public financing focus. Efforts to strengthen progressive fiscal systems, as called for in the Addis Ababa Action Agenda, help to tackle inequalities. Taxes also offer incentives, such as for private investment, environmental sustainability, health outcomes and other areas. To address the broad effects of the tax system, the Task Force continues to recommend whole-of-government approaches to tax policy and administration. In the experience of Task Force members, preparing medium-term strategies for tax system reform can help to sharpen political will, improve the societal ownership of reforms and drive the capacity-building needed to deliver them. Domestic public resource mobilization can be improved with the implementation of medium-term revenue strategies.

17. Medium-term revenue strategies should be seen as part of overall public financial management, with the effects of taxation and revenue analysed in the context of the allocation of public expenditure. Effectiveness and efficiency in revenue collection and public service delivery can boost the link between citizen and State by enhancing accountability and strengthening the social contract.

18. Gender equality must be addressed in policymaking and programming in order to build governance systems that are responsive to all citizens. Member States should conduct comprehensive analyses of the effects of fiscal systems, and not only of individual taxes, on gender issues, so as to ensure that revenue and expenditure are more gender-responsive and promote gender equality. Such analyses will require sex-disaggregated socioeconomic and fiscal data and the related analytic capacity. Regional and international tax cooperation bodies can support knowledge transfer and the capacity-strengthening of Governments in this regard. Guidelines and methodologies for medium-term revenue strategies, tax policy assessment frameworks and tax administration diagnostic tools should incorporate a gender perspective.

19. Conflict-affected countries have unique challenges, and fiscal systems are a keystone in the efforts to rebuild the social contract and establish trust and accountability between citizens and the State. Many conflict-affected countries rely on trade taxes as a significant source of revenue; accordingly, it is important to develop strong customs administration and enforcement mechanisms while working to diversify the tax base.

20. Taxes on harmful and unhealthy products, such as tobacco, alcohol and sugar-sweetened beverages, have the potential to raise revenues in addition to changing incentives and behaviour, thus improving the overall health of the population. Therefore societies receive a double benefit when Governments impose such taxes in order to achieve health and revenue objectives.

21. The digitization of business and finance has the potential to improve tax revenue collection, but the pace of technological innovation could also outstrip the ability of Member States to monitor tax avoidance and evasion. The use of technology for tax administration, including tax enforcement, can make more information available to revenue authorities and enable them to widen the tax base, identify and mitigate compliance risks, more effectively identify and prosecute evaders, and ultimately provide deterrence and stimulate voluntary compliance.

22. The Addis Ababa Action Agenda calls for taxes to be paid "where economic activity occurs and value is created". However, the digitization of business models makes this difficult because the value of intangibles and the location of value creation are hard to define and measure. As new rules are agreed upon in relation to the digitization of the economy, the Task Force reiterates the principle in the Addis Ababa Action Agenda that states that efforts in international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries.

23. Significant progress has been made to address the international dimensions of taxation. International tax cooperation has led to the implementation of new international standards on tax transparency, including through the automatic sharing of information by tax authorities. More work needs to be done to enable developing countries to benefit from the norms, especially the poorest countries. In 2017, the Task Force recommended a thorough analysis of the implications of international tax reforms for sustainable development. Such analysis has begun but remains incomplete, with some of the necessary data not yet available.

24. Official development assistance in support of domestic resource mobilization remains small. As stated in the Addis Ababa Action Agenda, donors should continue to increase their contributions to revenue mobilization capacity-building, and do so in line with the recommendations on enhancing the effectiveness of external support in building tax capacity in developing countries, as set out by the Task Force in 2017.

25. Task Force members, for their part, will continue to strengthen collaboration, including through the joint Platform for Collaboration on Tax of the International Monetary Fund, the Organization for Economic Cooperation and Development, the United Nations and the World Bank. The role of regional tax organizations is also vital. The sharing of experiences plays a key role in developing common positions and holds potential for regional cooperation on tax incentives and the harmonization of standards. Member States recognized this role during the 2017 Economic and Social Council forum on financing for development follow-up, while regional tax organizations are strengthening their global network so as to enable the broader sharing of experiences. The continued strengthening of existing regional tax organizations, and their establishment in regions without such organizations, will contribute to inclusive tax cooperation.

26. The Task Force recognizes the damage done by illicit financial flows, and the interest of Member States in combating this scourge. The Task Force will continue to provide component-by-component and channel-by-channel estimates of the value of such flows. Many of the reforms being discussed through international tax cooperation will contribute to preventing illicit financial flows. In addition to the role of technology in strengthening tax administration, technological advances can also assist Member States in combating illicit financial flows through improved customs

administrations, the application of anti-money-laundering rules and the operation of beneficial ownership registries and financial supervision. Whole-of-government approaches take on additional significance because combating illicit financial flows, such as goods trade misinvoicing, requires cooperation among many different agencies and ministries.

27. Technological advances also pose risks in relation to illicit financial flows. The potential for anonymity with the use of new technologies, such as blockchain technology and digital currencies, can heighten the risk of illicit finance. Member States can strengthen regulations on markets that contribute to the illicit movement of resources. International cooperation on the return of stolen assets is mandated by the United Nations Convention Against Corruption. More investments could be made in the human and technical resources necessary to speed up the return of assets.

28. Expenditure and budgeting needs to be effective and aligned with national and global priorities. Data and transparency are necessary on the expenditure side of public finance for the delivery of accountable public services and sustainable development. Stronger implementation of transparency measures and public participation in the budgeting process can improve the effectiveness of public finance.

29. Gender-responsive budgeting can strengthen coherence between government budgets and gender equality objectives by identifying key gender equality goals and allocating appropriate funding, as well as designing tax systems with gender equality in mind. Member States have committed to implementing policies and legislation that promote gender equality and the empowerment of all women and girls at all levels. Member States can use public financial management institutions to operationalize gender-responsive fiscal policies and should measure their progress in doing so.

30. In 2017, the Task Force provided a deeper analysis of the financing of universal social protection systems. Building universal social protection systems involves synergies with other social policies, as well as additional benefits, such as helping improve tax administration and delivering emergency assistance in response to shocks from financial and economic crises, conflict disasters and disease outbreaks.

31. In the Addis Ababa Action Agenda, it is emphasized that national development banks can play a vital role in financing sustainable development. A more in-depth study is warranted on how national development banks can adopt prudential risk management frameworks that align their activities with long-term investment and all three dimensions of sustainable development.

Domestic and international private business and finance

32. Private investment and business activity is integral to development and job creation. Through the Addis Ababa Action Agenda, businesses are invited to engage as partners and to apply their creativity to solving sustainable development challenges.

33. Two years after the launch of the 2030 Agenda for Sustainable Development, the momentum around sustainable investment is growing and private companies are progressively recognizing that sustainability can foster long-term value. Indeed, the 2030 Agenda creates enormous opportunities for commercial finance and investment. The Business and Sustainable Development Commission found that achieving the Sustainable Development Goals could unlock $12 trillion in market opportunities

across just four sectors: food and agriculture; cities; energy and materials; and health and well-being.[2]

34. Although investment picked up in 2017, long-term investment in sustainable development, especially in some developing countries (such as the least developed countries, landlocked developing countries and small island developing States), remains insufficient. In addition, despite a global consensus on the need to increase investment in infrastructure, in particular, private participation in this sector has fallen in each year since the Addis Ababa Action Agenda was adopted in 2015.[3]

35. Public policies set the enabling environment and the regulatory framework for private sector investment and activity. The Monterrey Consensus of the International Conference on Financing for Development tasked Member States with building transparent, stable and predictable investment climates, and, though gaps still remain, many countries have made great strides in this area. Developing countries should continue to work to build competitive business environments and to develop project pipelines and investible projects, supported by international cooperation and capacity development, especially for vulnerable countries including the least developed countries, landlocked developing countries and small island developing States.

36. In the Addis Ababa Action Agenda, countries also underscore the importance of better aligning business activities and investment decisions with sustainable development objectives. Investment in the Sustainable Development Goals requires long-term investing. Indeed, without a long-term perspective, certain risks, such as climate risks, will not be priced into private decision-making. One of the greatest challenges policymakers face in raising resources for sustainable development is how to address decision-making that is excessively oriented towards short-term objectives.

37. Achieving the Sustainable Development Goals will require a shift to a long-term investment horizon, with sustainability as a central component. Governments can explore ways to incentivize institutional investors to take a long-term approach, including by reviewing regulatory frameworks. The Task Force found that proper interpretation of the fiduciary duty of institutional investors with long-term liabilities would include a focus on the long term, and would incorporate all factors (including environmental, social and governance indicators) that have a material impact on returns, as these will drive the long-term performance of investments.

38. Asset owners can take the lead in aligning their incentives with long-term investment, such as by linking compensation to longer-term returns; rating agencies, consultants and advisers can support investors by evaluating risks and returns over a long-term horizon. The United Nations, in collaboration with other institutions, could serve as a platform for bringing together asset owners, managers and other stakeholders to exchange experiences with the financial community and other stakeholders and to disseminate the benefits of investing in the Sustainable Development Goals. The Task Force can develop analytical work to support and contextualize the discussions in the broader implementation of the 2030 Agenda and the follow-up to the Addis Ababa Action Agenda.

39. Offering incentives to the private sector to adopt global standards on responsible business conduct can promote a better alignment of social or public goals and private goals. The Task Force also recognizes the need to improve the definitions, standards, measurement and disclosure of environmental, social and governance impact, and of new instruments, such as green bonds. Given the proliferation of competing reporting

[2] Business and Sustainable Development Commission Ideas for Action for a Long-Term and Sustainable Financial System.

[3] World Bank, Private Participation in Infrastructure Database. Available from https://ppi.worldbank.org/ (accessed 21 March 2018).

guidelines for businesses, there is a need to introduce greater standardization in sustainability metrics and to ensure that the metrics are aligned to global standards so as not to duplicate efforts.

40. Ultimately, new products need to be developed in order to fully mainstream investment in the Sustainable Development Goals. The financial sector excels at innovation when there is a demand, and the current lack of such innovation raises questions as to the extent of the demand for investments that have environmental, social and governance impact and as to whether investment professionals necessarily know the preferences of their clients. As there is no systematic review of investor preferences, one simple solution would be for advisers, consultants, brokers and other financial professionals to ask investors and beneficiaries for their sustainability preferences, alongside other “know-your-customer” requirements.

41. The Task Force recognizes that even with long-term horizons and the incorporation of material long-term environmental, social and governance drivers of value, markets may provide insufficient financing for sustainable development in certain countries and sectors. This is the case when the risk-adjusted returns are not competitive with other opportunities, as a result of, for example, high risks (or externalities that are not priced into private investment decisions). Risk-sharing tools, such as blended finance, can be used to attract greater private investment.

42. In addition to greater efforts to reduce domestic risks, partnerships between foreign and domestic investors who are knowledgeable about the local context, along with multilateral, regional and domestic development banks and development finance institutions that also have such expertise, can help address the differences in risk perceptions.

43. The achievement of the Sustainable Development Goals is also dependent on finance being channelled to the least developed countries and other vulnerable countries, such as landlocked developing countries and small island developing States, in an inclusive manner, as well as to micro- and small enterprises, to women, to the poor and to underserved segments of society. Governments can examine the use of blended finance and similar mechanisms to spur investment, including by broadening the range of financing instruments that are accessible to small and medium-sized enterprises; more analysis is required, however, to design financial instruments that respond to the unique situation of countries with special needs, such as the least developed countries.

44. The digitization of finance offers new possibilities towards advancing inclusive finance and its alignment with the 2030 Agenda for Sustainable Development. Financial technology should be included as an integral part of national development plans related to the financial system. At the same time, effective regulation is necessary to monitor any systemic or consumer risks that may arise from the digitization of finance.

45. Collaboration between international institutions, regulators and financial technology entrepreneurs could help in the development of international norms for the effective use of financial technology. Financial technology also has the potential to lower the cost of remittances. Innovative applications can help address the loss of correspondent banking relationships and provide a boost to developing countries that receive significant remittances.

International development cooperation

46. In response to the vast investment needs associated with the Sustainable Development Goals, international public finance has increased since 2015, and efforts

continue to improve its quality and effectiveness. Development cooperation is increasingly focused on strengthening the capacities of developing countries to mobilize additional public and private resources for sustainable development, in particular by exploring the catalytic role of ODA and other financial flows. The challenging geopolitical environment and the increasing intensity and frequency of environmental crises are also contributing to a shift towards linking development cooperation more closely to addressing challenges such as climate change and the mitigation of conflict. These priorities are aligned with the 2030 Agenda and the Sustainable Development Goals, but there is a risk that changing aid allocation patterns will create funding gaps in the countries that are most in need of support and in investment areas that are critical to the objective of leaving no one behind.

47. In 2016, ODA increased by 10.7 per cent in real terms, continuing a long-standing trend. The decline in ODA to the least developed countries has also been reversed, but overall disbursements to the countries most in need of concessional resources and most vulnerable to external shocks have stagnated in recent years. Providers of ODA should continue in their efforts to fulfil the commitments they have made, and to further increase their ODA allocations to the least developed countries and other vulnerable countries.

48. Multilateral development banks and development finance institutions have continued to increase their efforts to provide financial support, technical assistance and policy advice in support of the 2030 Agenda. They have an indispensable role to play in financing the Sustainable Development Goals, in particular as regards infrastructure, and in ensuring that social and environmental sustainability considerations are embedded in investments that will lock in development paths until 2030 and beyond. To this end, the multilateral development banks should continue to strengthen their collaboration, including in their diagnostic work, support for project preparation and technical assistance, and to strengthen country capacities.

49. Bilateral and multilateral South-South development cooperation is expanding in scope and magnitude, including through intraregional and interregional collaboration. Raising the visibility of South-South cooperation and further documenting its added value for and impact on sustainable development would support the implementation of the Sustainable Development Goals.

50. An increasing share of development finance is dedicated to or aligned with climate-related purposes. Climate finance is channelled through many multilateral and bilateral mechanisms and funds, which provides recipient countries with a range of options, but also contributes to a complex landscape that makes monitoring and reporting on, access to and the effective use of such finance a challenging endeavour. Efforts by the Green Climate Fund to increase access to its funding are critical in this regard and other providers should also work towards simplifying access, particularly for vulnerable countries.

51. Although humanitarian funding is increasing, it is outpaced by the growth of financing needs. Donors should continue in their efforts to deliver on their Grand Bargain on humanitarian financing commitments. They should also continue to increase multi-year and flexible financing and increase investment in development assistance in crisis contexts, with a view to reducing risk and vulnerability and to building resilience.

52. As many developing countries have recently graduated, or will graduate soon, from eligibility for concessional financing windows as a result of strong per capita income growth, they are at risk of losing access to sufficient and affordable long-term financing for investments in the Sustainable Development Goals. Since many of these are small and climate vulnerable countries, additional support should be provided to manage the transition to new sources of financing as part of their integrated national

financing frameworks. A wider use of existing exceptions to eligibility based mainly on per capita income, such as the small State exception offered by the International Development Association, should be explored. Exceptions have also recently been introduced to make non-concessional financing available to low-income countries for projects with the potential for strong returns through the International Development Association Scale-Up Facility, which is designed to scale up financing for country-specific and/or regional operations from 1 July 2017 to 30 June 2020. Building on this experience, development banks should consider introducing additional flexibilities to access the appropriate sources of financing depending on project characteristics.

53. Development cooperation providers are increasingly focusing on the ability of development finance to mobilize additional private or commercial financing, often referred to as blended finance, with a view to maximizing the impact of scarce public concessional resources and mobilizing funding that otherwise would not have been available for investments in the Sustainable Development Goals. Providers should also engage with host countries at the strategic level so as to ensure that the priorities in their project portfolios align with national priorities and that blending arrangements are in the public interest. In order to increase the effectiveness of blended finance, relevant actors have worked on defining principles for blending. The international community should consider how these principles relate to respective commitments in the Addis Ababa Action Agenda and the overarching principles of development effectiveness, and discuss this relationship in a universal forum such as the Economic and Social Council forum on financing for development or the Development Cooperation Forum.

54. The use of blended finance instruments is growing rapidly, but has so far largely bypassed the least developed countries. As blended finance becomes an increasingly important modality, providers will need to take steps to ensure that vulnerable countries, where blended finance has so far proven to be much more challenging, do not see a fall in their overall share of international development finance, both by increasing complementary public investments and by exploring how to more effectively deploy blended finance in challenging contexts.

55. The focus on results has made the effectiveness of development cooperation relevant across the 2030 Agenda and its various means of implementation. In response, many actors are working to improve the quality, impact and effectiveness of development cooperation, including by ensuring that interventions support country ownership. Further efforts, however, are still needed, for instance, regarding tied aid. While the share of tied aid fell in 2016, thereby reducing transaction costs and strengthening local economies, donors should redouble their efforts to fully untie aid, particularly as private sector development becomes a bigger priority.

International trade as an engine for development

56. In the Addis Ababa Action Agenda, Member States acknowledged that international trade is an engine for inclusive economic growth and poverty reduction. At the same time, if the right mix of policies is not implemented, trade may leave some individuals and communities behind. Political leaders have therefore called for policies that ensure that the benefits from trade are shared more widely.[4] Complementary policies in areas across the 2030 Agenda, such as policies to promote growth, decent work, social protection, housing, financial inclusion and infrastructure, also play a role in easing adjustment. Collectively, members of the World Trade Organization can show leadership by reiterating their commitment to

[4] See, for example, the Group of 20 Hangzhou Summit communiqué (A/71/380, annex).

open, fair and mutually beneficial trade as a key driver of economic growth and a major engine for prosperity.

57. Developing countries, especially commodity-dependent countries, appreciate that increasing the economic and social benefits of trade requires diversifying their production. Appropriate investment and access to markets are necessary in that regard. The international community has committed to supporting them through the Aid for Trade initiative, providing support for trade facilitation and continued preferential market access for the exports of the least developed countries. Targeted technical assistance and trade-related capacity-building are essential to integrate vulnerable countries, in particular, the least developed countries, landlocked developing countries and small island developing States into the trading system and ensure that they are not left behind.

58. Emerging trends in recent years, such as the global expansion of Internet connectivity, have increasingly influenced international trade and enhanced trade's contribution to the Sustainable Development Goals. For instance, e-commerce is transforming global business, opening international markets, including for micro, small and medium-sized enterprises, and may provide untapped potential for enhancing inclusive trade growth in developing countries. Policymakers should explore opportunities for encouraging further growth in cross-border e-commerce to harness relevant opportunities for development and create conditions, procedures and resources in the best interest of inclusive development.

59. Global consumers and businesses are paying greater attention to the impact of trade on social and environmental sustainability.[5] This is reflected in the promotion of provisions addressing labour conditions, the empowerment of women and/or environmental sustainability in bilateral and regional free trade agreements. At the same time, these measures should not inadvertently act as non-tariff barriers to exports from developing countries. Open dialogue is warranted on aligning new trade agreements with the Sustainable Development Goals, including through the inclusion of gender equality and core labour standards.

60. Trade finance plays a key role in enabling global trade flows, creating economic value and driving inclusion by helping developing countries participate in global trade. Easing constraints on the supply of trade finance and of supply chain finance, including credit and risk mitigation in regions where trade potential is the greatest, could help micro, small and medium-sized enterprises grow and support the development of the poorest countries. Export credit agencies and multilateral development banks could explore further developing trade and supply chain finance programmes. Trade finance can be enhanced by promoting the standardization of trade finance instruments and the consistent implementation of anti-money-laundering measures, countering the financing of terrorism and "know-your-client" regulations across jurisdictions.

Debt and debt sustainability

61. At a time when Governments are faced with large financing needs to implement the 2030 Agenda, and as global financial conditions are set to tighten, many countries are constrained from raising resources owing to their high debt burdens. Risks are growing of a renewed cycle of debt crises and economic disruption, posing a significant challenge to the achievement of the Sustainable Development Goals. Despite a more favourable global economic outlook, debt service indicators among

[5] *Trade and Environment Review 2016: Fish Trade* (United Nations Publication, Sales No. 16.II.D.10).

developing countries have deteriorated over the past year, and vulnerabilities have increased, in particular in several countries that previously benefited from debt relief under the Heavily Indebted Poor Countries Initiative and the Multilateral Debt Relief Initiative. Many natural resource-producing countries have seen rapid debt accumulation as Governments have attempted to cushion the shock from falling commodity prices. Strains are also evident in several countries experiencing conflicts or political unrest and in some small island developing States, which remain vulnerable to natural disasters.

62. Recent debt shocks highlight a need for enhanced measures to manage vulnerabilities, including through improving debt management capacities in many developing countries. The international community has long offered technical assistance in public debt management, including at the subnational level and going beyond central Government liabilities. It has also developed analytical tools to advise Governments of emerging vulnerabilities. The effectiveness of the tools, however, depends on the central authorities having comprehensive information on the financial obligations of all units and levels of Government. Debtors need to improve their capacity to monitor and analyse debt developments, which will require better and broader data collection. Creditors have a role to play in these efforts by making the terms and conditions of lending public, straightforward and easy to track.

63. The 2017 Atlantic hurricane season underlined the vulnerability of small island developing States to natural catastrophes, but also demonstrated that innovative instruments, such as State-contingent debt instruments that reduce or delay debt servicing payments in times of crisis, could lessen financial stresses. The International Monetary Fund has recently investigated several proposals for such instruments. The international community could consider action to help to realize the potential of this market, including through developing model contracts and common standards, providing technical support, and more ambitiously, by increasing the use of such instruments in official lending. A task force of regional institutions is investigating an additional proposal from the Economic Commission for Latin America and the Caribbean that would swap discounted external debt of Caribbean countries for climate adaptation investments. Additional detailed analysis of that proposal is warranted, with a view to piloting its implementation in a limited number of countries on a trial basis. Additional tools could also be considered to ensure that developing countries affected by disasters are not left to deal with growing debt burdens in the long term.

64. Changes in the debt composition of emerging and developing countries may render future insolvencies more complicated to address, with non-traditional development partners gaining increased prominence. There are also growing obligations to new plurilateral[6] development finance institutions, though there is not yet a global understanding of whether those debts will enjoy the same seniority of payment as debt from traditional multilateral and regional development lenders. The Paris Club of Industrial Country Creditors provides a forum for official creditor coordination, but does not currently include all countries. Therefore, there is a need to re-examine official creditor cooperation mechanisms for addressing these issues. While improved bond contracts, including those that benefit from enhanced collective action clauses, should make borrowers less subject to litigation from distressed debt funds (so-called “vulture funds”), only 27 per cent of outstanding emerging market bonds have these enhanced clauses. The international community should continue to consider ways to strengthen the treatment of the main components of sovereign debt in workouts. In this context, the international community should continue to

[6] Plurilateral creditors refers to official lenders with more than one shareholder that extend non-commercial credit to other sovereigns and do not have open memberships.

strengthen the market-based approach through the expanded use of enhanced clauses in debt contracts. It should also explore the complementarities and incongruities of existing initiatives to specify principles and guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, in line with the commitment in the Addis Ababa Action Agenda to work towards a global consensus.

Addressing systemic issues

65. The Addis Ababa Action Agenda emphasizes the importance of the coherence and consistency of the international financial and monetary and trading systems in support of development. In order to achieve the Sustainable Development Goals, Member States not only need increased financing, but also fit-for-purpose national and international institutions that facilitate economic stability and sustainable development.

66. The 2008 global financial and economic crisis highlighted regulatory gaps and misaligned incentives in the international financial system. The reforms to financial system oversight proposed in the aftermath of the crisis have aimed to address those concerns. The Financial Stability Board and the financial regulatory standard-setting bodies monitor the implementation of post-crisis regulatory reforms and the impact of reforms on financial intermediation, including for small and medium enterprises and long-term financing. Member States should implement agreed financial regulatory reforms, while being watchful of unintended consequences and of new regulatory gaps that may result from financial innovation.

67. Post-crisis prudential financial measures, along with international macroeconomic policy coordination, have helped support a more stable international economic environment. Yet, as noted above, the world remains vulnerable to financial and economic volatility. After nearly a decade of loose monetary policies in many countries, rising global interest rates could lead to capital flight from developing countries, resulting in currency volatility, the increased risk of debt distress and impacts on the real economy. Continued efforts are needed to further reduce systemic risks and promote a strong, stable and sustainable global financial and monetary system. Countries with systemically important economies should continue to develop coherent macroeconomic and financial policies.

68. At the same time, the world is increasingly challenged by disasters that cause humanitarian emergencies and reverse development progress. A number of initiatives taken over the past decade have increased the availability of quick-disbursing international financial resources for use during economic and financial crises and after disasters. To facilitate a stocktaking of these efforts, at the 2017 Economic and Social Council forum on financing for development follow-up, the Task Force was invited to prepare an inventory of existing quick-disbursing instruments.

69. Some quick-disbursing instruments are part of the multilayer global financial safety net for addressing economic crises. The global financial safety net has been strengthened at the national, regional and global levels in recent years, nonetheless Governments should continue to work to remove gaps in coverage, ensure adequate levels of financing, increase its flexibility and strengthen its countercyclicality. The development of new regional institutions and bilateral instruments has expanded the availability of resources for many countries, however many of the instruments are untested in practice. The Task Force recommends continued efforts to improve coordination between different elements of the global financial safety net, thereby ensuring that the combined responses are adequate and agile enough to meet the depth of possible challenges.

70. The inventory also describes programmes used to pool disaster-related risks in order to be able to better manage them. Currently, the international community is serving as an "insurer of last resort" for emergencies through an ad hoc system of voluntary responses, but in some cases the slowness or insufficiency of traditional humanitarian funding response hampers the efficiency and effectiveness of efforts to help those in need. These ex post measures also do not incentivize disaster risk reduction. Contributors to disaster response should work to realign their financing from ex post to ex ante provision of risk-pooling funds and instruments, thereby improving the efficiency, predictability and speed of response. An increased focus on preparedness should include developing instruments that build incentives for risk reduction into their design and facilitate "building back better". Expanding and diversifying risk pools can reduce the costs of protection and improve their sustainability. Insurance-like instruments can be a useful complement to pooled funds; though in order to effectively diversify risks, a sufficient number of countries need to participate. To increase coverage, the Task Force recommends that donors assist the least developed and other vulnerable countries in their participation in sovereign risk pools.

71. The United Nations is also working to make itself fit-for-purpose for the 2030 Agenda. The Secretary-General has proposed system-wide reforms to enhance United Nations institutional coherence as regards sustainable development, including to achieve gender parity at all levels. A central component of the reforms is a restructuring of the United Nations development system, including proposals for revamping the resident coordinator system and introducing a funding compact. The adoption of reforms to the development system could help promote institutional coherence, increase the system's capacities and enhance its partnership approach at the country level to help to realize the ambition of the 2030 Agenda for Sustainable Development.

Science, technology, innovation and capacity-building

72. Science, technology and innovation are key means of implementation for the Sustainable Development Goals, opening new possibilities to address long-standing development challenges. Fast-evolving technologies are rapidly changing the development finance landscape, creating opportunities across the action areas of the Addis Ababa Action Agenda.

73. Advances in information and communications technology are at the heart of this technological change. Fast-evolving technologies have vastly increased digital interconnectedness, digital data storage and analytics capabilities, at declining cost. Artificial intelligence, which allows machines and computers to learn to solve problems on their own, could have transformative effects across many sectors of the economy — making it essential that innovations are in the public interest and guided by the 2030 Agenda and the Addis Ababa Action Agenda.

74. Indeed, the transformative power of technology raises complex ethical, socioeconomic and human rights challenges and risks. The rapid pace of technological change puts great adaptive pressure on economies and societies, while our understanding of their socioeconomic implications tends to develop more slowly than the technology itself. Access to and the capacity to adapt and take advantage of such fast-evolving technologies are very unevenly distributed within and between countries. Skills requirements are changing rapidly, which may further increase the digital skills divide. Women and girls, people with disabilities, older persons, indigenous peoples and people living in rural areas may face additional barriers in accessing and using technology.

75. One risk that is often identified is that technological change could lead to job losses and increased polarization in labour markets. In order to ensure that technology dividends are shared broadly, countries should put policies in place to support lifelong learning and skill acquisition for all. At the same time, the significant increase in self-employment and new forms of employment call for adapted and strengthened employment and social protection policies. To address continued gender disparities and improve the inclusion of marginalized groups, such policies should emphasize the equitable participation of women and members of all social groups in decent jobs.

76. In development finance, new technologies can help to overcome weak contract enforcement, improve administrative procedures, increase access to financial services for those currently underserved and address data gaps. But opportunities will only be available to those connected, therefore, wide access by individuals and businesses to new technologies, platforms and payment systems is critical. Governments need to adapt their regulatory frameworks to close access gaps while managing risks and policymakers also need to be proactive in addressing emerging risks to privacy, financial stability and financial integrity.

77. Harnessing technological dividends and sharing them equitably are critical challenges for policymakers. National innovation strategies need to be broad and coordinated with industrial, macroeconomic, education, social and science, technology and innovation policies, which should support the inclusiveness of such strategies. International collaboration and support for science, technology and innovation remains critical and needs to be scaled up, particularly for the poorest and most vulnerable countries, so as to help developing countries absorb, develop, integrate and scale up the deployment of key technologies and innovations for the Sustainable Development Goals.

Data, monitoring and follow-up

78. The range and depth of data requirements that need to be met to fully implement the monitoring frameworks for the Sustainable Development Goals and financing for development outcomes are unprecedented. The framework requires data disaggregated by income, sex, age, race, ethnicity, migration status, disability, geographic location and other nationally relevant characteristics, so as to leave no one uncounted. Monitoring the implementation of the Addis Ababa Action Agenda requires data that are not included in the Sustainable Development Goals indicators process. The Task Force, despite its limited resources, seeks to pull together the relevant data that exist; however, there is no central process to bridge the data gaps that were identified by the Task Force in its 2017 report.

79. Significant efforts are required to strengthen national statistical capacities and thereby provide the necessary data and statistics to monitor the progress in the implementation of the 2030 Agenda and the Addis Ababa Action Agenda. Funding the modernization efforts of national statistical systems is essential. Support from multilateral and bilateral donors for all areas of statistics accounted for only 0.3 per cent of total ODA which is far below what is needed. Donors should consider increasing the proportion of ODA that they provide to support statistical systems.

80. Challenges in data collection are particularly steep for gender-related data fields. Despite an increase in data availability to monitor progress towards gender equality, additional efforts are needed to fill the gaps. In order to overcome these challenges, Member States could incorporate plans for developing integrated national systems for gender statistics into their broader strategies. The Task Force has previously recommended that Member State policies should not only be "gender-sensitive" but should actively seek to advance the goal of gender equality, however

this will not be possible if policymakers do not make use of gender-disaggregated information. Member States should strengthen their efforts to produce sex-disaggregated data, but they also should popularize the use of gender statistics to improve policy design and implementation.

81. Further progress is also needed on data regarding the financial sector and financial vulnerabilities. Substantial progress was made by the participating economies during the first year of the second phase of the Group of 20 Data Gaps Initiative, despite some key challenges in the implementation of some recommendations. Among other issues, such challenges relate to the compilation of Government finance statistics beyond central Government; sectoral accounts, including details on shadow banking activities; and the sharing of granular data. Overcoming those challenges is essential in order to provide data to policymakers for monitoring financial sector risks, analysing fiscal conditions and understanding cross-border financial interconnectedness.

82. Finally, the report highlights transparency and accountability as a critical issue. Efforts at transparency, be they related to tax matters, debt levels or trade and customs data, will be more successful if the basis for information-sharing is more consistent. The report highlights efforts to improve the use of the legal entity identifier in financial sector data; for example, public entities that issue securities could lead by example and obtain a legal entity identifier for themselves. Transparency efforts could be linked and be made more interoperable, so that policymakers can have better data and make more effective decisions that move the world closer to achieving the Sustainable Development Goals.

IV. The way forward

83. Building on the findings from the 2018 report, the Task Force is considering focusing its 2019 report on an integrated picture of sustainable development financing from a country and a global perspective. The analysis will draw on ongoing efforts, within the United Nations system and beyond, on development finance assessments and integrated national financing frameworks, on road maps for sustainable financial systems and on related analytical work. That holistic approach can support a broader stocktaking of progress in the implementation of the Addis Ababa Action Agenda for the 2019 Economic and Social Council forum on financing for development follow-up and for the High-level Dialogue on Financing for Development of the General Assembly, which will be held in September 2019. In addition to reporting on progress in all action areas of the Addis Ababa Action Agenda, the thematic analysis of the Task Force will also consider the 2019 theme for the high-level political forum on sustainable development, “Empowering people and ensuring inclusiveness and equality”, and the Sustainable Development Goals that will be the subject to in-depth review in 2019.