United Nations E/FFDF/2019/2

Economic and Social Council

Distr.: General
11 March 2019

Original: English

Economic and Social Council forum on financing for development follow-up
15–18 April 2019
Follow-up and review of the financing for development outcomes and the means of implementation of the 2030 Agenda for Sustainable Development

Financing for sustainable development

Note by the Secretary-General*

Summary

The present note, which highlights the main findings of the 2019 report of the Inter-Agency Task Force on Financing for Development, provides an assessment of progress in implementing the financing for development outcomes. In its report, the Task Force draws on the expertise, analysis and data collected by over 60 of its members. The Task Force reviews the global economic context and its implications for sustainable development, explores the design of integrated national financial frameworks 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.

* The present note was submitted after the deadline so as to include technical corrections and clarifications made in response to comments received during a series of technical briefings held from 4 to 8 March 2019.

19-03636 (E) 020419

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I. Overview

1. Mobilizing sufficient financing remains a major challenge in implementing the 2030 Agenda for Sustainable Development. Despite signs of progress, investments that are critical to achieving the Sustainable Development Goals remain underfunded. Interest in sustainable financing is growing, but the transition to sustainability in the financial system is not happening at the required scale. Systemic risks are rising, and parts of the multilateral system are under strain.

2. In the *2019 Financing for Sustainable Development Report*,[1] produced in collaboration with over 60 entities of the United Nations system and partner international organizations, the Inter-agency Task Force on Financing for Development recognizes the scale and urgency of that challenge. But it also sees opportunity for revisiting national and global approaches to sustainable finance.

3. The international community should make use of this opportunity to reshape both national and international financial systems in line with sustainable development. If the international community fails to do so, it will fail to deliver on the 2030 Agenda.

Global aspirations at risk

4. The world is being changed by rapid shifts in geopolitics, technology, climate, among other factors. There are some encouraging signs. Extreme poverty continues to decline and inequality among countries has fallen. Investment in some countries and regions has strengthened after a period of slow growth. Carbon prices are slowly recovering and there is growing interest in sustainable investing.

5. Nonetheless, many of the risks highlighted in the previous report have begun to materialize or intensify, putting progress at risk and raising the urgency of action, including in relation to the following:

(a) World economic growth remains steady at around 3 per cent, but has likely peaked;

(b) More than half a trillion dollars' worth of goods are subject to trade restrictions – 7 times more than in the previous reporting period;

(c) Debt risks are rising: a number of countries, including around 30 least developed and other vulnerable countries, are either already in or at high risk of debt distress, hampering their ability to invest in the Sustainable Development Goals;

(d) Several countries have experienced significant capital outflows, with aggregate net outflows of over $200 billion from developing countries expected for 2018;

(e) Inequality has risen in countries home to most people in the world, and global growth in real wages is only 1.8 per cent, the lowest since 2008;

(f) Climate change continues apace, with greenhouse gas emissions having increased by 1.3 per cent in 2017, with dire consequences for communities worldwide.

6. Achieving sustainable development requires multilateral action to address global challenges; revisiting the global institutional architecture; and strengthened regional and national action, including adjusting policies to the changing global

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[1] References to chapters of the report throughout the present document are to the 2019 *Financing for Sustainable Development Report*.

landscape. It includes countering short-term behaviour on all levels and harnessing the potential of innovation while managing risks.

Recommit to multilateral action

7. Multilateral action is needed to address global risks and achieve the 2030 Agenda, including combating climate change. Governments should recommit to the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which provides a global framework for financing sustainable development, and strengthen collective action to address global challenges to sustainable development.

Revisit the global institutional architecture

8. Globalization and technological change have contributed to reducing extreme poverty at the global level, but uneven distribution of the benefits has left many behind and has undermined support for the global architecture. The multilateral system is under stress. And yet, within this difficulty may lie opportunity, as set out below:

(a) The crisis affecting the multilateral trading system is also an opportunity to revamp it and make it fit for purpose with regard to sustainable development;

(b) Challenges in sovereign debt restructuring, due in part to new instruments and non-traditional creditors, have sensitized the international community to gaps in the existing architecture;

(c) Increasing vulnerabilities have underscored the importance of strengthening the global financial safety net;

(d) The digitization of the economy has fuelled the debate about the design of the international tax system, which could help address inequities;

(e) Growing market concentration, including in the digital economy, has underscored the need to better monitor this trend and manage its socioeconomic implications.

9. To achieve the Goals of the 2030 Agenda, global solutions need to be complemented by national actions.

Adopt integrated national financing frameworks and adjust policies to new realities

10. In the Addis Ababa Action Agenda, it was noted that cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, would be at the heart of efforts. In response to the 2030 Agenda, many countries have injected new life into their sustainable development strategies. However, most strategies do not have concrete financing plans to fund their implementation.

11. The Task Force has identified four building blocks for operationalizing integrated national financing frameworks. All countries should consider developing financing frameworks to support their national development strategies. The international system should continue to support countries in these endeavours.

12. Financing policies do not work in isolation. Integrated financing frameworks should not only respond to financing challenges, but also to the realities of a changing global landscape. For example, to combat inequality, including gender inequalities, national policies will need to address the falling wage share, growing vulnerabilities, digitization and increasing market concentration, among other issues. Governments

should revisit their labour market policies, social protection systems, fiscal policies, competition policies, trade policies and financial sector regulations and strategies to ensure that they are in line with the new realities.

Counter short-term behaviour

13. Achieving sustainable development, in particular eradicating poverty, reducing inequality and combating climate change, requires a long-term perspective, with Governments, the private sector and civil society working together to tackle global challenges.

14. A more uncertain world, however, begets more short-term behaviour. Private businesses, many of whom already face a range of short-term incentives, hesitate to commit funds to long-term investment projects. During periods of financial insecurity, households often focus on their immediate needs. And policymakers are often guided by short-term political cycles.

15. Action is needed at all levels. Strengthened collective action can help reduce global uncertainty. Nationally, integrated financing frameworks provide a basis for long-term policymaking beyond political cycles. For private investors and businesses, achieving the Sustainable Development Goals will require a shift towards long-term investment horizons and sustainability as a central concern of investment decisions. To accomplish that, private and public incentives need to be aligned with sustainable development and the impacts on sustainability need to be better measured.

Harness the potential of innovation while managing risks

16. Financial innovation can generate significant progress across the 2030 Agenda and the Addis Ababa Action Agenda. New technologies and innovations can improve the functioning of markets. Financial technology (known as fintech) can enhance access to finance for millions of people. Big data can contribute to better policymaking. Blended finance, when well managed, can help to strengthen development finance. New instruments, strengthened sustainability reporting and innovative policy solutions can enable a growing number of investors to pursue financial returns with a positive sustainable development impact.

17. But financial and sustainability risks do not disappear with innovative forms of financial intermediation: credit risk still needs to be managed, and new technologies give rise to new risks.

18. Non-bank financial institutions and financial technology companies are not always well positioned to manage these risks, and neither are regulators who have historically focused on traditional financial service providers. Policymakers and regulators will need to increasingly shift to looking at the underlying risks associated with financial activities from all actors rather than looking at the type of institution. At the same time, they need to strike a balance between managing emerging risks and enabling experimentation and innovation.

II. The global economic context and its implications for sustainable development

19. Risks to the global economy have begun to materialize, leading to modest downgrades in growth projections by members of the Task Force. Global growth remains steady, but is projected to have now peaked, with economic activity expected to continue expanding at about 3 per cent per year. Global growth is projected to remain uneven across regions and countries. There is some good news: investment has gained strength in some countries and regions, in particular in East and South

Asia, which also have large poor populations; inequality within many developing countries is declining; and prices on carbon markets are slowly recovering owing to policy changes. There is also growing interest in sustainable and impact investing (see chap. III.B of the report). Nevertheless, financial markets are volatile, the trade system is in crisis, wage shares are declining, which is linked to increasing economic concentration, and the risks of debt distress have increased. Carbon emissions have also begun to rise again. Given those trends, States Members of the United Nations will not be able to meet the aspirations of the 2030 Agenda, and many will be left behind.

20. Policymakers face the daunting task of containing rising short-term risks, while advancing long-term development strategies towards economic, social and environmental goals. Both national and global actions are necessary. At the national level, Governments can take meaningful steps to build resilient and inclusive economies. Given that many of the challenges are global by nature, strengthening rules-based multilateralism is also necessary to fully achieve the Sustainable Development Goals. Waning support for international cooperation, often driven by the uneven distribution of the benefits of economic and financial integration, will not only hamper an effective short-term response to any global economic downturn, but also complicate collaborative efforts to implement the Addis Ababa Action Agenda, address global challenges and promote sustainable development.

21. In chapter I of its report, the Task Force examines the impact that economic performance and non-economic factors have on each other. Economic growth can lead to greater environmental degradation and carbon emissions, while the effects of climate change have enormous economic costs. The human and economic costs of natural disasters fall primarily on low-income and lower-middle-income countries. Still, policy choices matter. Economic growth and climate goals can be mutually supportive, depending on the policy framework. Similarly, ensuring women's rights and empowerment can promote gender equality and improve women's livelihoods, while also having a positively impact on economic performance.

III. Integrated national financing frameworks for sustainable development

22. The Sustainable Development Goals are comprehensive, complex and interrelated. Because of their synergistic nature, implementation of the 2030 Agenda has revived interest in national development strategies. However, most strategies do not spell out in detail how they will be financed. Mobilizing sufficient resources remains a key challenge.

23. Member States recognized that challenge in the Addis Ababa Action Agenda. As a result, they decided to put in place integrated national financing frameworks to support their sustainable development strategies. Such country-owned financing frameworks bring together financing and related policies that are most relevant to addressing the country's financing challenges. They look at the full range of financing sources and non-financial means of implementation available to the country and set out a financing strategy to raise resources, manage risks and achieve sustainable development priorities. In short, they are a tool for implementing the Agenda at the national level.

24. There are several benefits to an integrated approach. By connecting financing and related policies with longer-term objectives, integrated financing frameworks can help overcome short term-oriented decision-making. They allow policymakers to exploit synergies and manage possible trade-offs across different policies. Moreover, they help countries to manage an increasingly complex financing landscape and help

to mobilize different types of finance appropriate for country-specific characteristics and risks.

25. Adopting integrated national financing frameworks is a challenging endeavour. In many countries, capacities are limited and policy reform is costly: long to-do lists of needed reforms will not be helpful. Existing financing policies may be misaligned owing to underlying political constraints, which cannot be ignored. Nevertheless, many elements exist that countries can build upon.

26. All countries have a variety of financing policies in place. If they have already begun implementing a national sustainable development strategy, they should also have governance and coordination mechanisms in place. The integrated financing framework will not need to reinvent the wheel; it is a tool for identifying and implementing targeted policies and reforms in order to increase their effectiveness, coherence and alignment with sustainable development. There is clearly scope for doing so in both developed and developing countries.

27. In chapter II of its report, the Task Force aims to provide guidance to Member States as they design and implement integrated national financing frameworks. It presents four main building blocks for their design and operationalization: assessment and diagnostics; the financing strategy; monitoring, review and accountability; and governance and coordination mechanisms.

28. As interest in more integrated and strategic approaches to sustainable development financing grows, more detailed lessons are emerging for their design and implementation. Those lessons inform the analysis put forward in chapter II and will guide the Task Force as it continues to refine its methodology and its work in this area, for example through the further elaboration of policy toolkits most useful for different types of countries.

IV. Key messages and recommendations

A. Domestic public resources

29. Revenue is not an end in itself; it is a means for Governments to finance the expenditure necessary to achieve sustainable development and policy goals. The fiscal system plays several roles. It finances the provision of public goods, sets incentives for the behaviour of private actors and promotes equity. It also supports macroeconomic stabilization and can be used to stimulate growth during economic slowdowns. While median tax-to-gross domestic product ratios have increased, there is still a large gap between public resources and financing needs to achieve the Sustainable Development Goals.

30. As noted in the Addis Ababa Action Agenda, domestic resource mobilization is, first and foremost, generated by economic growth. With global growth projected to have peaked, as mentioned above and discussed in chapter I of the report, the further necessary increases in revenue will require the application of political will to tax policy and administrative reform, expanding the tax base and improving compliance. Given the long-term nature of the Sustainable Development Goals, Governments will need plans that operate through multiple political and business cycles. Embedding medium-term revenue strategies into long-term planning and developing a national consensus that can see revenue reform through political cycles should allow countries to raise more public resources. Maintaining a focus on aligning the expenditure side of fiscal policy with sustainable development strategies to deliver public services equitably will create further progress in achieving the Goals, while stimulating inclusive growth.

31. Member States can work towards the establishment of a new social contract, based on a more equitable and inclusive society with fair contributions by all. The renewed social contract should be reflected in national sustainable development strategies and integrated financing frameworks (see chap. II of the report). Fulfilling the social contract requires that those resources be raised fairly and tied to effective expenditure and the delivery of accountable public services.

32. Combating inequality and achieving Goal 10 on reducing inequality requires the careful design of the fiscal system. Placing a priority on effective and progressive tax systems and expenditures can make the achievement of inequality-related Goals more likely. Governments can explicitly take into account inequalities, including gender inequalities, in fiscal policy and public financial management. Gender-responsive budgeting is an effective tool for tracking financial commitments to and actual expenditure on working towards gender equality. Countries with large informal sectors can pursue efforts to formalize business in ways that do not harm the poor. Policymakers can use relatively high tax-exempt thresholds to incentivize formalization, encourage greater levels of compliance and ensure that the poor are not burdened by the tax system. Removing means-testing for access to social protection would help remove barriers to participation in the formal economy, while also providing benefits to participation. More effective taxation of large businesses, including multinational enterprises, can boost revenue, while contributing to perceptions of fairness in tax systems and reducing inequality.

33. Incentives set by the fiscal system can be used to effectively target progress on Goal 13 on climate action. Climate change mitigation and adaptation policies and disaster risk reduction can be supported by incentives in the fiscal system. Environmental taxation and the reform of energy and other subsidies have a critical role to play in transitioning the world to a low-carbon economy.

34. The international tax environment looks remarkably different from the way it did in 2009. Norm-setting is more inclusive and more information is now available on financial accounts and corporate activity, although profit-shifting remains a challenge. Efforts at strengthening international tax cooperation have brought important benefits in the enforcement of tax rules. All countries should aim to participate in international efforts to strengthen tax transparency; at the same time, more work needs to be done to enable developing countries to benefit from information-sharing networks, especially the poorest countries. Some of the fundamental tenets of the international tax architecture, such as the arm's length principle and the allocation of taxing rights, are now being questioned, in particular as a result of the digitization of the economy.

35. The international tax architecture needs to continue to be more inclusive, and the voices of all countries need to be part of discussions on setting new tax norms. It is in the global interest to seek a consensus, but that consensus needs to reflect the realities and priorities of different countries. It is critical to pay attention to the potential impact on small and poor countries, which already lag behind in their ability to raise revenue. Putting the needs and capacities of those countries at the forefront of analysis and decision-making would help create a fairer international tax system and advance sustainable development. Official development assistance (ODA) in support of domestic resource mobilization remains small. Donors should continue to increase their contributions to revenue mobilization capacity-building.

36. A number of international initiatives are aimed at ensuring that multinational enterprises pay taxes where economic activity occurs and that value is created, with particular importance placed on efforts for country-by-country reporting. Greater public availability of aggregate data on offshore financial assets and the taxation of those enterprises would contribute to a more accurate assessment of the distributional

effects of tax norm changes and empower countries to choose tax norms that enhance equity.

37. The Task Force recognizes the damage done by illicit financial flows and Member States' interest in the issue. While technological advances pose risks relating to illicit financial flows, those advances can also be used to strengthen tax administration and help Member States to combat the phenomenon.

B. Domestic and international private business and finance

38. The private sector represents the largest part of the economy in most countries. It is thus promising that a growing number of investors have expressed interest in taking social and environmental issues into account in their investment decisions. The impact of this growing interest in investing in sustainable development is unclear, however, in part because of confusion with regard to what sustainable investment means and in part owing to a lack of consensus on how to measure its impact. Through its analytical work, the Task Force could help to create greater global consensus on the definition of sustainable investment and the measurement of investment impacts, building on both public and private efforts.

39. Policymakers should capitalize on the growing interest in sustainable investing. Capital markets are a powerful vehicle for promoting alignment with sustainable development, provided the right incentives are in place for all market participants. In the Addis Ababa Action Agenda, Member States underscored the role of capital markets and called upon Governments to design policies that promoted incentives along the investment chain that were aligned with long-term performance and sustainability indicators and that reduced excess volatility.

40. Many countries are making strides towards building sustainable financial systems; lessons learned can be shared through international platforms to find synergies and strengthen policy frameworks. Governments can help create incentives to foster greater sustainable investing, including by pricing externalities, requiring more meaningful disclosure by corporations on social and environmental issues and clarifying fiduciary duty and asset owner preferences, such as through the incorporation of sustainability preferences into required investor profiles. They can also promote long-term investing by supporting efforts to build longer-term indices or encouraging longer-term investment horizons in credit ratings, as well as through regulatory frameworks.

41. In the Addis Ababa Action Agenda, it was also recognized that public policy was needed to create an enabling environment that encouraged entrepreneurship and a vibrant domestic business sector. Investments in sustainable and resilient infrastructure can further facilitate private sector development by providing essential services for the functioning of the economy. Governments should continue to strengthen the enabling environment, including by considering appropriate financing sources, assessing bottlenecks to investment and prioritizing policy actions (see chap. II of the report). For example, in infrastructure, this would help to identify where private or public delivery and financing of sustainable infrastructure would be the most cost-effective solution and what type of infrastructure would be most likely to deliver the desired impacts.

42. The achievement of the Sustainable Development Goals is also dependent on private investment in least developed countries and other vulnerable countries, where capital markets are less developed and investment profiles riskier. Deliberate policy efforts are required to promote and facilitate investments that are linked to sustainable development. That fact also highlights the importance of international support to spur

investment, for instance through carefully structured risk-sharing instruments or through a greater role for development banks (see also chap. III.C of the report).

43. The question of access to finance is central to private sector development. While access to financial services has improved in recent years, significant gaps remain across countries and in specific market segments. Financial sector strategies are instrumental to addressing financing gaps and tackling market failures in an integrated manner. As a first step, Governments can aim to build inclusive financial systems, for instance by supporting diversified types of financial institutions, depending on national contexts, and by making greater use of financial technologies. They can also seek to further develop capital markets by first ensuring that the right conditions are in place. In addition, they can consider complementary solutions such as private equity markets, which deserve further research to better understand the associated benefits and risks.

44. Financial development, however, has its own limits and should not be pursued blindly. Over-financialization can harm growth and contribute to rising inequality. Policy frameworks can help to incentivize finance for productive investments, and effective regulatory environments can help to minimize the risks of financial volatility and maximize the benefits of financial sector development.

45. Policies that promote private sector development also need to take into account impacts on income distribution. Over the past three decades, the share of wages in total income has declined as compared with the share of capital. Market concentration in certain sectors raises concerns for its role in worsening income distribution and requires competition policies that reflect the changing global environment and the growing role of technology, both at the national and at the international level, and better monitoring of market concentration trends.

C. International development cooperation

46. Development cooperation is adjusting to the new demands of the 2030 Agenda and the increasingly complex and diverse development landscape. However, stakeholders must do more to implement the Agenda and achieve its aim to leave no one behind.

47. While ODA has grown steadily over the past decade, aggregate growth in real terms was flat in 2017. Flows to least developed countries increased by more than 10 per cent, but this rise mostly reflected humanitarian emergencies in a few countries. ODA providers should continue to strengthen efforts to meet the commitments they have made, including by collectively redoubling their efforts, to ensure that ODA, as a critical source of development finance, can deliver on the transformational ambition of the 2030 Agenda.

48. Data on the allocation and use of ODA at the national and subnational levels are still limited. More detailed reporting and the disaggregation of data by factors such as those outlined in the 2030 Agenda would help improve monitoring and guide policy interventions to ensure no one is left behind. In addition, mapping ODA flows to the Sustainable Development Goals can be a helpful tool for monitoring and for focusing attention on areas that can accelerate the achievement of all Goals.

49. As humanitarian expenditure and in-donor refugee spending have risen, the share of ODA for country programmable aid and budget support has decreased in recent years. There has been progress in untying aid, but informal tying remains. There is an urgent need to address those challenges to the quality of ODA, which, taken together, pose a threat to hard-won gains in country ownership and leadership.

50. Multilateral development financing has grown in volume, and multilateral development banks have taken steps to strengthen their collaboration. Integrated reporting on the environmental, social and governance impacts of their lending, which some multilateral development banks are already implementing or considering, would further support ongoing efforts to mainstream Sustainable Development Goal considerations in all operations and help to ensure that no one is left behind. That alignment should continue to be improved and refined in order to increase impact.

51. South-South cooperation is making a vital contribution to the implementation of the 2030 Agenda, as a complement to, not a substitute for, North-South cooperation. As South-South cooperation continues to expand, there is opportunity to further advance both South-South and triangular cooperation as high-impact modalities of international development cooperation, both financial and non-financial.

52. Bilateral and multilateral providers have scaled up blended finance. To ensure that scarce concessional financing has the greatest development impact, providers of blended finance should engage with host countries at the strategic level, to ensure that the priorities in their project portfolios align with national priorities. Integrated national financing frameworks, discussed in chapter II of the report, can guide those discussions. The international community should consider how blended finance principles are aligned with those laid out in the Addis Ababa Action Agenda, such as country ownership.

53. Climate finance flows increased by 17 per cent from 2013–2014 to 2015–2016, but are still below the commitment by developed countries to jointly mobilize $100 billion a year by 2020 from a wide variety of sources to address developing countries' climate financing needs. To combat climate change and reduce risks from increasingly devastating and costly natural hazards, efforts should be stepped up to realize existing commitments. Access to climate finance for the poorest and most vulnerable countries must be improved. To strengthen resilience in developing countries, more resources can be allocated to ex-ante instruments for disaster risk reduction.

54. National development cooperation policies put in place by many developing countries are proving effective in helping to mobilize and align development cooperation with national sustainable development plans. Going forward, those policies will need to continue to adjust to an increasingly diverse development cooperation landscape and strengthen the participation of a broader set of stakeholders, including through more effective citizen participation.

D. International trade as an engine for development

55. The multilateral trading system has made a significant contribution to economic growth and development. Despite that contribution, the system is facing serious challenges. Following the positive trade momentum that occurred in 2016 and 2017, 2018 saw growing trade tensions and increasing threats to the functioning of the World Trade Organization (WTO) and its dispute settlement system. Trade growth is expected to slow in 2019, with significant downside risks associated with escalating trade tensions. Those challenges present an opportunity to make the system work better, by finding solutions within the multilateral trading system, updating WTO and revamping the trading system for a new century. In their declaration issued following the Group of 20 Summit held in Buenos Aires in 2018, G-20 leaders recognized the contribution of the multilateral trading system and committed to supporting the necessary reform of the WTO to improve its functioning. Governments can use appropriate intergovernmental meetings to accelerate progress on WTO reform. In

addition, it is hoped that WTO members will complete long-standing work on the development agenda.

56. Strengthening the contribution of trade as an engine for inclusive economic growth and poverty reduction is especially important to least developed countries, which remain far below the target of doubling their share of global exports by 2020. With a view to continually improving market access for exports by least developed countries, WTO members should expeditiously implement the ministerial decisions on preferential rules of origin for least developed countries and on preferential treatment for their services exports.

57. The fact that trade has income distributional effects underscores its importance and supports policies aimed at reducing inequality and empowering women in both developed and developing countries. For example, trade patterns and challenges tend to present gender-based differences. Signatories to new and existing trade and investment agreements are encouraged to address synergistic linkages between trade, investment and socioeconomic and environmental policy (in areas such as finance, taxation, competition, labour, gender and technology) in order to enhance the contribution of trade to achieving the Sustainable Development Goals.

58. Actions are also required to allow micro, small and medium-sized enterprises to better tap trade opportunities and integrate into international value chains. The persisting trade finance gap continues to affect those enterprises disproportionally. The increase in the provision of trade financing and guarantees by multilateral development banks is timely, but would need to be complemented by greater private finance and, potentially, by financing from national development banks. Greater focus needs to be placed on financial techniques that are less document-intensive, as well as on digital platforms and financial technology that can help strengthen trade financing for micro, small and medium-sized enterprises, including by reversing the decline in correspondent banking, which is partly responsible for the trade finance gap.

59. E-commerce opens up new trade opportunities for micro, small and medium-sized enterprises. However, many developing countries, in particular those in Africa, remain relatively underconnected to the internet and thus to e-commerce platforms. That fact underscores the importance of increasing investment in information and communications technology. The upcoming plurilateral negotiations on e-commerce at WTO should address the need for resources to enhance e-commerce readiness among micro, small and medium-sized enterprises in developing countries.

60. Improving trade facilitation, including by improving efficiency in customs revenue collection and sustainable and climate-resilient transport, presents immense potential in reducing trade cost and increasing pubic revenue. International assistance remains critical to making progress in those areas, notably through the Aid for Trade initiative.

E. Debt and debt sustainability

61. Countries face pressing demands for additional public investment in the Sustainable Development Goals, but high debt burdens may threaten their ability to raise sufficient financing. Public debt levels have continued to rise since the publication of the previous report, with some middle-income countries experiencing debt levels not seen since the debt crises of the 1980s. Debt vulnerabilities in developing countries are due not only to higher levels of debt, but also to increased risks from a shift in debt composition. A rise in external debt carrying variable interest rates and greater reliance on commercial debt have increased refinancing risks. The

more prominent role played by non-traditional creditors and market-based financing also presents new challenges for debt crisis resolution.

62. The rise in public debt has been accompanied by an increase in corporate debt, in particular in middle-income countries, as many large companies took advantage of the long period of unusually low international interest rates. Further increases in global interest rates could raise concerns for financial stability and, in many cases, for public debt sustainability, as private liabilities often become public during crises. While debt levels in the majority of developing countries remain sustainable, the rise in the number of countries in or at high risk of debt distress requires the attention of global policymakers.

63. To retain fiscal space for Sustainable Development Goal investments in that challenging context, multipronged policy action is needed at the national and global levels. Such action includes measures to improve debt management, debt transparency and debt sustainability assessments. It can also include differentiating how debt financing is used and prioritizing borrowing for productive investments that can create fiscal space.

64. The international community is stepping up its work to help countries reduce debt vulnerabilities. Updating analytical tools like the recently revised Debt Sustainability Framework for Low-Income Countries of the International Monetary Fund and World Bank can help countries identify risks, make policy corrections and better understand the relationship between public investment, growth and debt sustainability. Debtors and creditors are encouraged to use newly available tools to help inform sustainable borrowing and lending.

65. The rise in floating rate debt issued in a low interest rate environment may indicate that some Governments have not adopted a sufficiently risk-informed perspective in their debt management. Governments need to carefully monitor the growth of debt, including contingent liabilities and debt of their private sectors, through a risk-based approach. To address systemic risks posed by private borrowing, Governments should aim to adjust regulatory policy frameworks during periods of rising risks. Strengthening debt management through technical assistance and training will help countries to deal with existing debt more effectively. At the same time, there is also a need for complementary actions on the global level in other action areas of the Addis Ababa Action Agenda, including strengthening international tax cooperation, providing reliable sources of concessional development finance and strengthening macroeconomic policy coordination and the global financial safety net.

66. The full effectiveness of efforts to improve analytical tools and debt management will require greater debt transparency. While the primary responsibility for debt transparency lies with debtors, the international community and creditors also have an important role to play. Creditors share the responsibility to make the terms and conditions of lending public, straightforward and easy to track. Creditors should also strive for simplified lending terms and avoid onerous conditions on sovereign borrowing. International institutions can update data standards and provide technical support to improve the capacity to record, monitor and report debt.

67. Efforts to provide clear guidance for responsible sovereign lending and borrowing should also be reinforced, building on existing efforts such as the Principles on Promoting Responsible Sovereign Lending and Borrowing of the United Nations Conference on Trade and Development and the operational guidelines for sustainable financing endorsed by the Group of 20. There is merit to exploring how those approaches could complement each other and to working towards global consensus guidelines for debtor and creditor responsibilities, in line with the mandate in the Addis Ababa Action Agenda.

68. There continues to be a role for innovative mechanisms to reduce risks to sovereign balance sheets. Although their use so far has been limited, there has been increasing interest over the past year in State-contingent debt instruments, whereby a country's debt service obligations are linked to its ability to pay. Following the severe hurricane season of 2017, there has been particular interest in developing climate-resilient instruments for Caribbean economies susceptible to disasters. The international community can continue to support these efforts, including through technical work to consider appropriate design options for State-contingent debt instruments. Official creditors should consider increasing the use of such instruments in their own lending. The Economic Commission for Latin America and the Caribbean has proposed a swap of some of the region's external debt for debtor country commitments to make annual payments into a Caribbean resilience fund. Pilot implementation of this or similar proposals in a limited number of countries of the region should be considered.

69. While the evolution of private and public cross-border financing modalities and sources of credit has increased the variety and scope of international financing for development, it has also raised concerns that decentralized debt workout processes no longer serve their function well. Changes in the creditor landscape and the increase in collateralized lending have raised new restructuring challenges and brought new salience to the issue of creditor coordination and to long-standing challenges in the existing architecture. It is thus time to revisit existing mechanisms for debt workouts to determine ways to improve their efficiency. Areas ripe for progress may include exploring ways to strengthen creditor coordination, creditor and debtor dialogue and specific elements of debt workouts, such as standstills.

F. Addressing systemic issues

70. The global economy is facing heightened risks and financial volatility, with global growth likely to have peaked, as mentioned above and discussed in chapter I of the report. Geopolitical factors, trade disputes, financial market volatility and non-economic factors such as climate change risk further impeding growth, stability and development and worsening poverty, inequality and vulnerabilities. It is becoming increasingly urgent to address the systemic economic and financial risks and architectural gaps that threaten the implementation of the 2030 Agenda.

71. Weaknesses in the global financial system could pose heightened risks to achievement of the Sustainable Development Goals. Those risks include the volatility of international capital flows, resulting from the short-term nature of many elements of international capital markets; persistent global imbalances; debt sustainability challenges in the public and private sector (see chap. III.E of the report); and growing monopoly power and less effective competition policies (see chap. III.B of the report). High debt levels in public and private entities, including through highly leveraged financial market derivatives, raise vulnerabilities and feed boom-bust cycles. The compression of the wage share of income has exacerbated inequality. The rapid pace of technological change, while possibly providing new remedies, can also exacerbate global systemic risks.

72. To achieve sustainable development, the international community should continuously examine whether its institutions are sufficient and remain fit for purpose. Such reflection has begun, for example, within the Group of G20, but the global implications warrant wider, open and inclusive discussions. As noted in the Addis Ababa Action Agenda, that reflection process should be complemented by efforts to increase coherence within the global system and improve the inclusivity of global economic governance.

73. While the implementation of financial sector reforms in the aftermath of the 2008 global financial and economic crisis has reduced risks in the regulated financial system, risks are growing in areas beyond such reforms, including outside the regulatory framework. Governments can aim to better manage capital flow volatility through policy actions that maintain the benefits of long-term investment in developing countries while reducing the risk of financial crises. The international community should be mindful of spillover from domestic policy choices, including on the volatility of private capital flows to developing countries. Efforts to incentivize long-term investment to facilitate Sustainable Development Goal achievement can contribute to this objective. IMF has adopted an institutional view on the liberalization and management of capital flows, which is used to guide IMF advice to and assessments of its members. At the national level, countries should incorporate strong macroprudential regulations – and capital account management techniques when needed – into integrated national financing frameworks (see chap. II of the report), as called for in the Addis Ababa Action Agenda, to ensure coherence across national policies.

74. In the medium to longer term, shifts in the international monetary system, including those related to external adjustment and global imbalances, could increase financial volatility, in particular in a period of political uncertainty. That fact underscores the importance of strengthened international cooperation and of ensuring adequate resources and comprehensive coverage in the global financial safety net. Under the current financial architecture, currency risk associated with welcome international financing is often borne by actors in developing countries that are least able to manage it. The international community should develop better mechanisms to help address currency risk in developing countries, including through a greater use of currency risk diversification, as called for in the Addis Ababa Action Agenda. Much like some other insurance mechanisms, international entities are well placed to manage such risks globally.

75. Agreed regulatory reforms need to be fully, consistently and transparently implemented, but they alone are not enough to create sustainable and stable financial systems. Outside the traditional regulatory perimeter, technology companies and non-bank financial institutions are intermediating growing shares of credit. Technology companies often blur the lines between software, settlement and financial intermediation. There are concerns about increasing risk-taking in credit markets with deteriorating underwriting standards, such as leveraged loans being packaged into collateralized loan obligations. To effectively manage risks arising outside the regulatory perimeter, financial regulators will increasingly need to shift to looking at the underlying risks associated with the financial activity rather than at the type of financial institution providing financial services, with international regulatory standards also needing to adapt to the new landscape.

76. Given the complex and ambitious set of transformations needed to deliver on the 2030 Agenda, coherence across policy areas is critical. There is growing understanding of how financial regulations are affecting incentives for sustainable development investment. There is less understanding of the impacts of social and environmental risks on credit quality and the stability of the financial system. Policies and regulations need to act together in order to create a sustainable financial system. The regulatory system needs to be congruent with the measures used to boost the sustainability of the private financial system, such as sustainability reporting and impact measurement (see chap. III.B of the report).

77. Well-run national development banks can help countries develop financing options for Sustainable Development Goal-related investments. Such banks should be aligned with the Goals in a holistic way and be considered in integrated national financing frameworks. Collaboration between national development banks and

multilateral banks, through co-financing or on-lending arrangements, can enhance Goal-related finance through the complementarity of international resources and local market knowledge. Member States and the international community can work together to strengthen risk management by national development banks. Research is needed to better understand how the regulatory frameworks that apply to these banks can be tailored to protect their financial sustainability while incentivizing the sustainable development effectiveness of their investment.

78. Concern remains over the decline in correspondent banking, which is driven by cost, including for maintaining important anti-money-laundering and related standards, and risk considerations. Well-managed technological solutions have the potential to address the costs and risks of operating correspondent banking relationships. Member States can work together to incentivize or require the adoption of “know-your-customer” utilities and the legal entity identifier.

79. As achieving the 2030 Agenda demands the maximization of synergies and the breaking down of silos, ensuring that financial and economic systems are coherent with sustainable development is critical. Member States have aimed for economic, financial and trade policy coherence since the adoption of the Monterey Consensus. The deeper coordination that is now needed extends across a broader set of international policy areas and institutions, including tax, investment and competition, as well as non-economic issues that had previously been excluded, such as climate change, disaster risk, human rights, gender and migration.

80. Global governance must be enhanced to support the ambitious 2030 Agenda. Throughout the report, there are many calls for deepening international cooperation, strengthening global governance and improving inclusive international norm-setting. Across those areas, more work is needed on broadening and strengthening the voice and participation of developing countries, in accordance with the commitments set out in the Addis Ababa Action Agenda.

G. Science, technology, innovation and capacity-building

81. Rapid changes in new and emerging technologies have great potential to support the achievement of the Sustainable Development Goals, but they also raise new challenges. Institutions and policy and regulatory frameworks at the national and international levels have not kept pace with these changes.

82. Recent developments in automation have raised concerns that rapid advances in artificial intelligence and other technologies could make the labour of millions of people in developed and developing countries redundant. While estimates are highly uncertain, there are several actions that Governments can take to be better prepared, such as encouraging innovation that uses technologies to create new products, services and jobs; being sensitive to the differential impact on women and men; ensuring social protection and extending social security mechanisms to compensate for the loss of working hours and jobs; and investing in people’s capabilities to enable them to benefit from new technologies, while paying attention to the differing needs of different groups (young people, older persons, people with disabilities, women, men and others).

83. Advances in access to mobile internet, cryptography and distributed computing have given rise to financial innovations in the field of technology that have fostered financial inclusion. However, they have also led to new risks and challenges for financial markets. Regulatory frameworks need to address those risks without stifling financial innovation. Improved dialogue between policymakers, regulators and new service providers is critical to finding the right balance. Governments should incorporate platforms for dialogue into their policy frameworks. Experimentation and

innovative mechanisms, such as regulatory sandboxes, can help policymakers design appropriate regulatory frameworks. Given that new actors involved in financial technology are blurring the lines between software, settlement and financial intermediation, financial regulators will need to shift from looking at the type of financial institution providing financial services to looking at the underlying risks associated with the financial activity.

84. Developing countries need support from the international community to close technology gaps and address digital divides, keep up with rapid technology change and make progress towards achieving the Sustainable Development Goals. Various factors can constrain the diffusion of technology. To improve access, it is important to identify binding constraints, be they absorptive capacities and the digital skills gap, the lack of economic incentives, social and cultural factors or issues relating to intellectual property rights. International organizations can help in this endeavour, and international cooperation can contribute to addressing obstacles in each of those areas. Because the technology landscape is evolving rapidly, facilitating access to relevant technologies requires policy experimentation. The increasing digitization and connectivity of the economy is a case in point, as it not only makes entirely new innovation approaches possible, but also raises new challenges, especially for the poorest countries.

H. Data, monitoring and follow-up

85. The implementation of the 2030 Agenda and its commitment to leave no one behind requires the collection, processing, analysis and dissemination of an unprecedented amount of data, including disaggregated data, for effective policy design and for monitoring and evaluating progress. To capture data on all population groups, including the most vulnerable, Governments should further strengthen traditional data sources, such as surveys and administrative records, while also embracing new sources and continuing to strengthen gender data.

86. The signatories to the Addis Ababa Action Agenda agreed to provide international cooperation, including through technical and financial support, to further strengthen the capacity of national statistical offices and national statistical systems. Given the increased need for data disaggregated by factors such as those outlined in the 2030 Agenda, as well as the opportunities and challenges stemming from non-traditional data sources, providers should step up their support for the statistical systems of developing countries through increased capacity-building. A doubling of funds will be needed to operationalize the six priority areas of the Cape Town Global Action Plan for Sustainable Development Data.

87. National strategies for the development of statistics provide an overall vision for developing national statistical systems and statistical capacity, as well as for addressing issues relating to the integration and use of data from different sources. To ensure alignment with national priorities, statistical strategies should be closely linked to national sustainable development strategies and be incorporated into integrated financing frameworks.

88. Big data present an opportunity to complement traditional sources of statistical information, in order to assess progress towards the achievement of the Sustainable Development Goals and improve targeting of policy interventions. They also, however, present new risks and challenges. The international community should work to develop technical standards that adequately address data access, privacy and data security concerns, while continuing to follow existing statistical quality standards.

89. Continuing efforts are under way to improve the collection and dissemination of data on the financial sector and on financial vulnerabilities. As part of the second

phase of the Group of 20 Data Gaps Initiative, progress was achieved with regard to the monitoring of shadow banking, the reporting of data on global systemically important banks and the improved coverage, timeliness and periodicity of sectoral accounts. It will be important to secure adequate resources to support the infrastructure necessary for data access and sharing and to ensure the future maintenance of new datasets created as part of the Data Gaps Initiative.