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### Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development

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### Report of the Secretary-General

#### *Summary*

The present report was prepared in response to General Assembly resolution [77/156](#), entitled “Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development”. The report focuses on emerging challenges and key accelerators for financing for development with a view to informing discussions on and preparations for a fourth international conference on financing for development as requested in the resolution. The report lays out main trends affecting financing for development, and key questions and challenges that an international conference could address in each of the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

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\* [A/78/150](#).



## I. Introduction

1. Over the last several years, the world has been rocked by a series of crises and global shocks. The coronavirus disease (COVID-19) pandemic, the war in Ukraine, sharp increases in food and energy prices and rapidly tightening financial conditions have dramatically set back sustainable development prospects and have impeded investments in the Sustainable Development Goals of the 2030 Agenda for Sustainable Development, with the greatest impact being on the poorest and most vulnerable. On average, gross domestic product (GDP) losses from the pandemic were almost twice as large in developing countries than in developed countries, translating into rising poverty.<sup>1</sup> These shocks and their disproportionate impact on developing countries were a “stress test” for international development cooperation and the international financial architecture – one that the international community has largely failed.

2. Financing for development has moved to centre stage in global discussions on the implementation of the Goals and climate action. There is widespread recognition of a “great finance divide” between developed and many developing countries, as laid out in the *Financing for Sustainable Development Report 2022* and the *Financing for Sustainable Development Report 2023*. During the pandemic, developed countries enacted massive fiscal stimuli to protect their economies and societies, supported by aggressive monetary policy. Major economies have also embarked on large-scale subsidy programmes to incentivize investments in the energy transition and in strategically important advanced technologies. Most developing countries, especially the least developed countries, have been unable to scale up public finance and investment, owing to limited fiscal space and a lack of access to affordable long-term financing.

3. Tax revenues in many developing countries remain low, at an average of 12, 17 and 19 per cent of GDP respectively for the least developed countries, middle-income countries and small island developing States, compared with about 24 per cent for developed countries. Borrowing space is also limited. As noted in the *Financing for Sustainable Development Report 2023*, 52 developing countries face severe debt problems. Debt service payments command a fast-growing share of the revenues of developing country governments, doubling from a low of about 4 per cent on average in 2010 to about 9 per cent in 2022. Twenty-five developing countries, including a quarter of the least developed countries, dedicate more than one fifth of their total revenues to servicing public external debt, the largest number of countries crossing that threshold since the debt relief initiatives of the early 2000s.

4. The high cost of debt servicing reflects both an increase in debt during the period of low interest rates prior to the most recent crises and the high cost of borrowing faced by many developing countries. Developing country sovereign borrowing costs in financial markets are excessive relative to risk compared with other investment opportunities, even after adjusting for historical defaults.<sup>2</sup> In 2022, the average interest cost of outstanding sovereign debt for developed countries was about 1 per cent, compared with about 3 per cent for developing countries (based on all sources of finance: financial market finance, official borrowing and low-cost concessional financing). Developing country average sovereign spreads (the average difference in yields between their bonds and “risk-free” AAA-rated sovereign bonds) have come

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<sup>1</sup> See *World Economic Situation and Prospects 2023* (United Nations publication, 2023).

<sup>2</sup> With risk measured by short-term volatility of secondary market prices. See Josefin Meyer, Carmen M. Reinhart and Christoph Trebesch, “Sovereign bonds since Waterloo”, *Quarterly Journal of Economics*, vol. 137, No. 3 (August 2022).

down slightly from their peaks in mid-2022, but remain high, at over 700 basis points on average for issuers in sub-Saharan Africa.<sup>3</sup>

5. The high cost of borrowing on financial markets has a profound impact on investment in sustainable development, not only because it puts tighter constraints on debt-financed public investment, but also because it raises the cost of private investment. High sovereign borrowing costs in markets translate into expensive financing for private investors, as sovereign rates usually provide a floor for firms' borrowing costs. For example, an investment in clean energy, which might be competitive in a developed country, can be prohibitively expensive in many developing countries. The International Energy Agency has estimated that the cost of capital for a typical solar photovoltaic plan is between two and three times higher for developing countries than for developed countries and China. In 2021, financing costs accounted for half of the levelized costs of electricity in developing countries, compared with 25 to 30 per cent in developed countries and China.<sup>4</sup>

6. The present report examines these and other challenges and trends affecting financing for development, along with key accelerators. Section II lays out some overarching trends and risks that have contributed to the great finance divide. Section III examines how these challenges, accelerators and risks affect each of the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. It highlights key questions that require attention by the international community and that Member States could consider in the lead-up to and during a fourth international conference on financing for development. Section IV examines data and the follow-up process.

## II. Emerging trends and key challenges

7. Several emerging trends have contributed to the great finance divide and risk further exacerbating it. These include the rise in systemic risks, including climate-related risks, which vulnerable countries are less able to manage; the under-provision of global public goods; enormous changes in technology that create development finance opportunities as well as new risks; changes in the international division of labour, which are driven by technology and other factors that make traditional development pathways narrower and steeper; and growing risks of fragmentation in the global economy. The international financial architecture and system of global economic governance was not designed to address these challenges and the resulting gaps and unresolved crises risk undermining faith in multilateralism itself.

8. The pandemic underscored the dramatic impacts that global non-economic systemic risks can have on social and economic progress. Climate change in particular will continue to increase the frequency and intensity of shocks and disasters and to put pressure on public and private budgets. It poses systemic risks to the financial sector and leads to challenges that the international financial architecture was not designed to address.

9. The financing needs for climate mitigation and adaptation are much larger than are being mobilized by public and private actors under the current architecture, rules and incentives. This is despite growing interest in sustainable investing. Investments in renewables alone would have to approximately triple (from about \$250–300 billion to about \$1 trillion annually) by 2030 to limit warming to 1.5 degrees Celsius, with

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<sup>3</sup> See International Monetary Fund (IMF), *World Economic Outlook: A Rocky Recovery* (Washington, D.C., 2023).

<sup>4</sup> See [www.iea.org/reports/cost-of-capital-observatory/tools-and-analysis](http://www.iea.org/reports/cost-of-capital-observatory/tools-and-analysis).

the bulk of additional investments made in developing countries.<sup>5</sup> It is estimated that developing countries' adaptation costs will be about \$140–300 billion annually by 2030.<sup>6</sup> Without rapid policy changes, these investment gaps threaten to become a vicious circle, with the finance divide limiting countries' ability to invest in the Goals, climate action and resilience, making them in turn more vulnerable to increasingly frequent and intense shocks.

10. Systemic risks from economic and financial channels also remain elevated. Financial globalization, which is characterized by liberalized financial markets and openness to international financial flows, has contributed to capital flow volatility and exposed developing countries more directly to shocks. Global factors, such as global interest rates, risk aversion and uncertainty, play an important role in determining cross-border capital flow volatility.<sup>7</sup> They can have immediate effects on financing conditions in developing countries. Financial regulatory systems must do more to address short-termism and volatility in markets while also promoting sustainability. The COVID-19 pandemic shock and financial market turbulence in 2022 have also revealed significant gaps in the global financial safety net.

11. Technological changes have had very visible impacts on the global economy and societies, with digitization in particular dramatically affecting most action areas of the Addis Ababa Action Agenda. They have been a driver of financial inclusion, while also creating new risks for financial stability and integrity. They have profoundly affected the tax landscape and resource mobilization through their transformative effect on production processes and the international division of labour.

12. Structural transformation has historically been an engine of growth and poverty reduction. More diversified economies provide a larger and more stable basis for domestic resource mobilization and income from international trade. In recent decades, the rise of global value chains, the geographic concentration of manufacturing activities in a few large countries and rapid technological change have created opportunities for developing countries to export to global markets, but have also made industrial transformation more challenging, leading to “premature deindustrialization” in many developing countries.<sup>8</sup> Digitalization and advanced digital production technologies have further raised the bar for developing countries: demands on infrastructure, logistics and connectivity, as well as educational and skills requirements, are rising, making it more difficult for countries without appropriate infrastructure or capacities to compete.<sup>9</sup>

13. Globalization and the international rules governing investment, trade and technology flows have also come under scrutiny, owing to rising geopolitical tensions. Some countries are reducing external dependencies in sectors that are deemed strategically important, such as semiconductors, other high-tech sectors and energy. Trade restrictions imposed for geopolitical and national security purposes have surged since 2020, compounding the effects of the recent crises. Some estimates

<sup>5</sup> Priyadarshi R. Shukla and others, eds., *Climate Change 2022: Mitigation of Climate Change – Working Group III Contribution to the Sixth Assessment Report of the Intergovernmental Panel on Climate Change*, Intergovernmental Panel on Climate Change (Cambridge, United Kingdom of Great Britain and Northern Ireland, and New York, 2022).

<sup>6</sup> United Nations Environment Programme, *Adaptation Gap Report 2022: Too Little, Too Slow – Climate Adaptation Failure Puts World at Risk* (Nairobi, 2022).

<sup>7</sup> See for example, H el ene Rey, “Dilemma not trilemma: the global financial cycle and monetary policy independence”, NBER Working Paper, No. 21162 (Cambridge, Massachusetts, National Bureau of Economic Research, 2018).

<sup>8</sup> *Financing for Sustainable Development Report 2023: Financing Sustainable Transformations* (United Nations publication, 2023).

<sup>9</sup> Mary Hallward-Driemeier and Gaurav Nayyar, *Trouble in the Making? The Future of Manufacturing-Led Development* (Washington, D.C., World Bank, 2018).

suggest that severe fragmentation of the global trading system could cost up to 7 per cent of GDP globally.<sup>10</sup> The resurgence in trade restrictions, different roles of the State in economies, major subsidy programmes in large economies and the impacts of climate change have all led to calls for multilateral dialogue and, potentially, reform of the multilateral trading system in order to reconsider how rules and their application strike the right balance between guaranteeing fair and open trade while giving countries sufficient policy space to pursue public policy objectives.

14. Both national and international actions will be needed to make development financing fit for purpose in this new and challenging environment. At the national level, country-owned sustainable industrial transformation strategies can help countries to achieve social and economic objectives and a just transition. Such ambitious transformations necessitate that all financing policies be supportive through, for example, an integrated national financing framework. As of the spring of 2023, 86 countries are putting such frameworks in place to mobilize and align financing for their national sustainable development priorities.

15. At the international level, there is now broad agreement on the need for reform. As noted in the *Financing for Sustainable Development Report 2023*, the international financial architecture is currently in flux, as countries seek to remake international organizations, norms, rules and frameworks. Discussions are ongoing throughout the international system, including in informal country groupings, such as the Group of 20, the Group of Seven and the Bridgetown Initiative. The issues are on the agenda of the boards of the World Bank and IMF, as well as at the United Nations and in other forums. In May 2023, the Secretary-General published “Our Common Agenda policy brief 6: reforms to the international financial architecture”,<sup>11</sup> which lays out bold recommendations for reform.

16. As the custodian of the Sustainable Development Goals and the convenor of climate negotiations, the United Nations has an important role to play in ensuring that reforms to the international financial architecture support the implementation of the Goals and climate agreements. Such reforms will affect all countries and people in the world, and all aspects of the Goals. While the final implementation of reforms can happen elsewhere, the United Nations brings together voices from all countries on an equal footing, along with the voices of stakeholders such as business and civil society. A fourth international conference on financing for development, scheduled for 2025, will provide an opportunity for agreement on a package of reforms that can make the architecture fit for purpose for the twenty-first century.

### III. Action areas of the Addis Ababa Action Agenda

#### A. Domestic public resources

17. Domestic public finance is essential for financing the Sustainable Development Goals, increasing equity and helping to manage macroeconomic stability. The Addis Ababa Action Agenda endorses a whole-of-government approach that includes increasing the quantity of resources, enhancing the quality of expenditures and ensuring that both are done fairly and sustainably.

18. Globalization and digitalization have fundamentally altered the landscape of taxation. Digital tax administration and audit of financial and tax records can help to

<sup>10</sup> Shekhar Aiyar and others, *Geoeconomic Fragmentation and the Future of Multilateralism*, Staff Discussion Notes, No. 2023/001 (Washington, D.C., IMF, 2023).

<sup>11</sup> United Nations, “Our Common Agenda policy brief 6: reforms to the international financial architecture”, May 2023.

prevent some types of tax evasion and to broaden the tax base. At the same time, globalization and digitalization have created challenges for the collection of tax from multinational enterprises and wealthy individuals, as they are able to exploit gaps and mismatches in tax rules to shift income and assets across borders in ways that avoid taxation and regulation. Cryptoassets and other digital financial tools present further opportunities for tax evasion.

19. Globalization and long-term changes in the structure of economies require shifts in the design of revenue mobilization systems. Broadly speaking, tax systems rely on combinations of taxation on labour, capital and consumption. Because globalization has increased competition to attract private investment, there has been pressure over time to lower corporate income tax rates. In order to realize sufficient revenue in a context of liberalization of trade and declining tariff revenue, many countries have turned to consumption taxes. However, consumption taxes are not only generally regressive, but they may also not be well-suited to a world in which growth in corporate profits far outstrips growth in wages.<sup>12</sup>

20. While international policy discussions on updating international tax norms have been ongoing for more than a decade, they have yet to yield an agreement that sufficiently addresses tax avoidance and evasion and that has full support from all Member States. When the Addis Ababa Action Agenda was agreed, very few multilateral tax agreements existed; bilateral relationships and agreements were the dominant form of international cooperation. Since 2015, several multilateral legal agreements have been concluded, including agreements concerning important changes in tax transparency through the Global Forum on Transparency and Exchange of Information for Tax Purposes, housed by the Organisation for Economic Co-operation and Development. The automatic exchange of information on financial accounts and the country-by-country reports of multinational enterprises has provided an abundance of information for those tax administrations that receive it, but most developing countries lack access to and the ability to use the information. Intergovernmental discussions have also been initiated at the United Nations to discuss options for strengthening the inclusiveness and effectiveness of international tax cooperation.<sup>13</sup>

21. Reducing illicit financial flows and returning the proceeds of corruption can also provide more resources for investment in the Goals. Across multiple methodologies, estimates show that the volume of illicit financial flows has grown since the 1990s. Member States have sought to check this growth through greater international tax cooperation and stronger international frameworks to combat corruption and money-laundering. However, the challenges appear to be growing more quickly than national and international policy responses in the forms of improved transparency, information sharing and international cooperation. Member States may also wish to consider how to make international responses to illicit financial flows faster, more coordinated and more flexible.

22. Over the last several decades, there has been an increasing focus on carbon pricing, fossil fuel subsidies and incentives for green energy/industry. However, the commitment in the Addis Ababa Action Agenda to phase out harmful fossil fuel subsidies remains largely unfulfilled, with implicit and explicit subsidies growing over time. Climate action will likely require a combination of instruments (including taxes, carbon markets, regulations and subsidies) to be effective, administratively practical and politically feasible. Renewed international commitment could galvanize such efforts. The international community could consider how a fourth international

<sup>12</sup> See Federal Reserve Bank of St. Louis, FRED Economic Data, available at [https://fred.stlouisfed.org/graph/?graph\\_id=966035#0](https://fred.stlouisfed.org/graph/?graph_id=966035#0).

<sup>13</sup> General Assembly resolution 77/244.

conference on financing for development better link discussion in the context of the United Nations Framework Convention on Climate Change to financing for development.

23. In many countries with sufficient resources, social protection, including new policies developed during the pandemic, has been strengthened to reduce inequality, but progress has been insufficient in most countries that have limited fiscal space. There is also renewed attention on fiscal tools that can be used to reduce inequalities, such as wealth taxes, gender-responsive budgeting and social protection finance. However, this attention has so far translated into limited policy changes. Gender-responsive budgeting is increasingly being implemented, but more work remains to be done to evaluate the gender equality impacts of budget allocations and to feed those insights into the budgeting process. Work on assessing gender bias in tax systems and boosting their gender-responsiveness is only at an early stage and could be boosted by a stronger international commitment to assessing and addressing implicit gender biases in tax systems. The international community could consider how a fourth international conference on financing for development can add further momentum and support fiscal policies to reduce inequalities.

24. National development banks are increasingly seen as a critical part of the global financial system and an important tool for ensuring financing for countries' sustainable development priorities. Coordination and networking among public development banks has grown enormously since the agreement on the Addis Ababa Action Agenda, which highlighted the role of national development banks. In June 2023, at the Paris Summit for a New Global Financial Pact, 550 multilateral, regional and national public development banks committed to work as a system and cooperate to align their activities with the Goals, the Paris Agreement on climate change and the Kunming-Montreal Global Biodiversity Framework.<sup>14</sup> The international community could consider how a new international agreement could build on progress in cooperation and coordination of the entire system of public development banks to increase their Sustainable Development Goal impact.

## **B. Domestic and international private business and finance**

25. Private business activity, investment and innovation are major drivers of productivity, employment and economic growth. Aligning private sector incentives with sustainable development can also support public goods. However, private investment in the Goals in developing countries has been grossly insufficient.

26. Many developing countries continue to be largely bypassed by foreign direct investment. The number of projects across all Sustainable Development Goal sectors in developing countries increased by about 3 per cent in 2022, while the investment value fell slightly. There has been no major uptick in private investment in infrastructure since 2015, despite many international initiatives in this area, including initiatives to build countries' capacity.

27. That low level of investment undermines the narrative that foreign investment, in particular from large institutional investors, could easily be unlocked in developing countries as a substitute for limited public sector funds. Instead, a new narrative for private finance for the Goals could centre around three priorities: (a) building a dynamic domestic business sector and capacities; (b) incentivizing both domestic and international private investment where it is most likely to successfully play a greater positive role, for example, in projects with clearly identified revenue streams

<sup>14</sup> Summit for a New Global Financing Pact, "Chair's summary of discussions at the Summit on a New Global Financing Pact", Paris, June 2023.

(e.g. power generation), as laid out in the Addis Ababa Action Agenda; and (c) aligning all private finance with sustainable development.

28. As a first step, building an enabling Goals-aligned business environment would reduce investment risk while promoting the Goals. In addition to good governance and rule of law, a Goals-aligned enabling environment could include addressing financial constraints, including those affecting micro-, small- and medium-sized enterprises; implementing competition policies that ensure that firms do not stifle innovation, aggravate inequalities or impede environmental goals; promoting infrastructure services; and adopting regulatory frameworks that promote stability and sustainability. The international community could consider how a fourth international conference on financing for development could update the concept of enabling environments to include sustainability and support countries in building sustainable development-enabling environments at the national level.

29. Building an enabling business environment alone will generally not be sufficient to mobilize investment at the scale required to achieve the Goals. Policies, incentives and instruments that share risk among the official sector and private partners will be needed in countries that are most in need and in sectors that are key for sustainability. At the national level, this would include sustainable industrial policies.<sup>15</sup> At the global level, blended finance instruments can be deployed. However, while there has been increased interest in blended finance, it has not, to date, lived up to the expectation that investments in the Goals would be scaled from billions to trillions. Blended finance investments often focus on the deals that are the easiest to transact instead of those with the greatest sustainable development impact, thus bypassing countries most in need. In many cases, the instruments used are not well-suited to the projects chosen, limiting the success of deals. The international community could consider how a fourth international conference on financing for development, learning from experiences with blending since the Addis Ababa Action Agenda, can help to reframe blended finance to focus on using the most appropriate instruments for sustainable development impact.

30. Currency risk is often cited as a key reason for low foreign investment in developing countries. Because of their ability to diversify across currencies, international financial institutions are in a better position than sovereigns to manage foreign exchange risk. This was recognized in the Addis Ababa Action Agenda. A fourth international conference on financing for development could support the establishment of a public currency fund that offers currency hedging for private investments, while managing currency risk through a portfolio approach.<sup>16</sup>

31. Major changes are also required in the way that private business and finance works. Sustainable finance has boomed since the Addis Ababa Action Agenda. Sustainable investing reached \$35.3 trillion in 2020. Environmental, social and governance considerations were mentioned in about one fifth of earnings calls in 2021, compared with fewer than 1 per cent of calls before 2019. In 2021, over 90 per cent of the companies in Standard and Poor's 500 Index published a sustainability report, compared with only 20 per cent in 2011. However, despite improvements in environmental, social and governance reporting, the need for systemic change is evident from the lack of progress in many areas of the Goals where companies have a large footprint, such as reducing carbon emissions, promoting gender balance and addressing waste. Turning growing awareness among business leaders and investors into action at the necessary scale will require leadership by policymakers. This should

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<sup>15</sup> See "What will it take? Financing sustainable industrial transformation", in *Financing for Sustainable Development Report 2023* (United Nations publication, 2023).

<sup>16</sup> See also Avinash Persaud, "Unblocking the green transformation in developing countries with a partial foreign exchange guarantee", version 7.0, 7 June 2023.



include continuing to strengthen company sustainability disclosure; designing policy and regulatory frameworks that better link profitability to sustainability; adjusting corporate governance models and incentives to include sustainability and address persistent short-termism in capital markets; and making sustainable investing more credible and better aligned with the Goals, including by fixing sustainability ratings. The international community could consider which contributions a fourth international conference on financing for development could make to turn the growing interest and multiple efforts around sustainable finance into transformative change in business behaviour and investment patterns.

32. Financial inclusion has improved significantly since 2015, owing primarily to digitalization, which has lowered the cost of providing financial services. Sending cash remittances now costs about the same as it did in 2011, while the cost of digital remittances fell from about 12 per cent to 5.2 per cent in 2022. Nonetheless, the global average cost of sending remittances stands significantly above the 3 per cent target of the 2030 Agenda and of the Addis Ababa Action Agenda, owing to remaining impediments, such as the loss of correspondent banking relationships. Women in 104 countries still lack legal protection against discrimination in access to credit. The international community could consider how a fourth international conference on financing for development could support countries in advancing digital financial technologies, including through peer learning, and accelerate financial inclusion globally.

### **C. International development cooperation**

33. The COVID-19 pandemic, the war in Ukraine and the food, fuel and climate crises have placed unprecedented demands on international development cooperation. While official development assistance reached a record high in 2022 in absolute terms in response to multiple crises, at \$185.9 billion, it represents only 0.33 per cent of donor country gross national income, which is far below the United Nations target of 0.7 per cent.

34. Massive demands require the prioritization and better targeting of international development cooperation, as well as a larger overall resource envelope. The least developed countries and other vulnerable countries, such as small island developing States, need more concessional resources and grants, while blended finance and non-concessional resources from multilateral development banks can also help to meet the broader demand. All developing countries can benefit from South-South and triangular cooperation by building on the breakthrough work on the measurement of South-South cooperation. At the country level, integrated national financing frameworks can help developing countries to lay out the best use of development cooperation resources and the appropriate mix of public and private finance to support their national sustainable development priorities.

35. Since the adoption of the Addis Ababa Action Agenda, there have been significant shifts in the provision, modalities, focus and recipients of international development cooperation. There is increased delivery of official development assistance through multilateral rather than bilateral providers, a rise in South-South and triangular cooperation and a nascent contribution by philanthropy. With respect to modalities, there has been growth in official development assistance through loans relative to grants, an increase in blended finance (although it remains small) and greater use of regional and subregional mechanisms on broader measures of development support. In terms of focus, there has been a shift from a concentration on poverty to broader goals, such as the Goals and climate finance, as well as an increase in allocation for humanitarian aid. Changes in recipients are in part due to the graduation of low-income countries and least developed countries to higher-

income categories, a concentration of the poor and vulnerability in middle-income countries and increased attention to climate-vulnerable countries, such as small island developing States, as well as countries in conflict or post-conflict situations. The international community could consider how a fourth international conference on financing for development can help to galvanize the meeting of existing commitments, and what specific steps are needed to improve the quantity and quality of development cooperation.

36. The important role of public development banks, and especially multilateral development banks, in financing sustainable development and climate action is increasingly recognized. The Secretary-General's Sustainable Development Goal stimulus calls for an expansion in the volume of lending, from \$100 billion per year to at least \$500 billion. The Group of 20, the Bridgetown Initiative, and the multilateral development banks vision statement from the Summit for a New Global Financial Pact, held in Paris in June 2023, all call for a greater role for public development banks.

37. To support the growth in lending, multilateral development banks will need to make better use of their balance sheets, as called for in the Addis Ababa Action Agenda, which stresses that development banks should make optimal use of their resources and balance sheets in a manner consistent with maintaining their financial integrity. The 2022 Group of 20 Capital Adequacy Framework puts forward concrete measures for multilateral development banks to do so. However, it is also increasingly acknowledged that additional capital increases will be needed to meet climate and Sustainable Development Goal challenges.<sup>17</sup> To further boost lending, the Sustainable Development Goal stimulus, the Bridgetown Initiative, and the multilateral development bank vision statement also highlight the potential to rechannel special drawing rights through multilateral development banks, which can leverage the impact of special drawing rights 3 to 5 times through increased lending. Such rechanneling initiatives can build on the work of the African Development Bank and the Inter-American Development Bank.

38. The Addis Ababa Action Agenda encourages multilateral development banks to establish a process for examining their own role, scale and functioning to enable them to adapt and be fully responsive to the sustainable development agenda. In 2023, the World Bank released a report (*Evolution of the World Bank Group – A Report to Governors*) reviewing the Bank's roles, scale and functions. Proposals are planned to be adopted at the World Bank Group's annual meetings in October. Multilateral development banks should also fully align their lending with the Sustainable Development Goals and improve lending terms, including through increased local currency lending and the incorporation of State-contingent elements, building on recent commitments to include climate-resilient debt clauses in some development banks' lending. In addition, efforts should be made to strengthen the system of development banks, including through knowledge-sharing and risk-sharing where appropriate, which can lead to opportunities to maximize the system's balance sheet through greater diversification. The international community could consider how a fourth international conference on financing for development can galvanize ongoing reform efforts in the development bank system to support a significant scaling-up of lending, with a focus on Sustainable Development Goal and climate impact and building on commitments in the Addis Ababa Action Agenda.

39. Multilateral development banks should also take the lead in developing a new approach for blended finance, focusing on development impact rather than quantity or degree of leverage (see sect. III.B). This will require updating internal metrics,

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<sup>17</sup> See, for example, Group of 20, *Strengthening Multilateral Development Banks: The Triple Agenda – Report of the Independent Experts Group*, vol. 1 (2023).

incentives and lending decision-making: targets need to focus on sustainable development impact as well as quantity, as focusing on quantity alone would likely lead to scaling up the easiest-to-implement deals and bypassing the least developed countries and other vulnerable countries. The international community could consider how a fourth international conference on financing for development can help to reframe blended finance to focus on sustainable development impact (see sect. III.B.) and crystalize agreement by providers on an appropriate framework for scaling up blended finance to ensure development impact while not overcompensating private partners.

40. Climate- and debt-vulnerable countries, such as many least developed countries and small island developing States, need more concessional resources and grants. Multidimensional vulnerability criteria, based on the multidimensional vulnerability index and “beyond GDP” indicators, could be used to complement income per capita to support allocation decisions for concessional financing. A fourth international conference on financing for development could lay out how such measures could inform the allocation of and access to concessional financing (as discussed in sect. IV).

41. Increasing attention is also being paid to international cooperation in support of global public goods, especially in response to the climate crisis and the COVID-19 pandemic. There are also ongoing efforts to measure the financing of global public goods, but they are hampered by a lack of political consensus and agreement on a definition of global public goods. Better and more transparent accounting, including through the development of new ways to account for climate mitigation to ensure additionality, will be essential. The international community could consider how a fourth international conference on financing for development can advance discussions on financing for global public goods as additional to financing for national country priorities.

42. Advancing the development effectiveness agenda can help to meet the massive global development challenges and changed financing landscape. A recent survey of providers and recipient countries indicated that the current development effectiveness agenda remains relevant. However, respondents also indicated the need for reform and revitalization owing to the changed landscape and lagging attention to the agenda. A shared understanding of development effectiveness principles is key in the new development financing landscape. There are currently two main global platforms dealing with the development effectiveness agenda: the Development Cooperation Forum and the Global Partnership for Effective Development Cooperation. The international community could consider how a fourth international conference on financing for development can revitalize the development effectiveness agenda.

43. The concept of innovative public finance in development cooperation has evolved considerably since the Monterrey Consensus of the International Conference on Financing for Development of 2002. However, uptake has been limited. As noted in the Addis Ababa Action Agenda, innovative sources and mechanisms of financing, such as solidarity taxes and advanced market commitments, still have the potential to be replicated and scaled up. More recent discussions have also focused on leveraging private finance (e.g. blended finance). The international community could consider how a fourth international conference on financing for development can help to amplify and advance the innovative public finance agenda, including through the replication and scaling up of successful instruments.

## **D. International trade as an engine for development**

44. Since 2015, global trade has continued to change and its role in sustainable development has been reshaped. New complexities, such as climate change, digital transformations, global value chains, financialization of commodity markets and the international division of labour affect trade dynamics. Geopolitical considerations have led to an increase in trade restrictions, and efforts to accelerate low carbon transitions have raised concerns over the openness of international trade. While policymakers have started to reform trade and investment agreements to align them with sustainable development objectives, many challenges remain.

45. The most recent crises have hampered global trade, widened the trade finance gap and triggered a global food crisis. Trade costs have risen owing to factors such as elevated maritime costs, shipping capacity shortages and export restrictions. In response, some countries and companies are aiming to enhance their resilience to external shocks through increased local production, shorter value chains and diversified supply sources. However, reshoring at significant scale could harm sustainable development prospects in developing countries.

46. Achieving self-sufficiency in every domain, for example, for geostrategic reasons, is neither possible nor desirable for countries. Severe fragmentation of the global economy would come at a very high cost, with developing countries suffering the largest output losses. A renewed focus on industrial policies in developed countries amid the climate crisis and rapid digitalization has raised further concerns that developing countries could be left behind. The international community needs to consider and update, where necessary, international rules to reconcile these objectives. In addition, it could consider how a fourth international conference on financing for development can help to further align the international trading system with sustainable development.

47. The Appellate Body of the World Trade Organization (WTO), designed primarily to uphold a rules-based global trading system, has for decades played a crucial role in reducing trade barriers, issuing over 350 rulings. However, the effectiveness and functioning of the Organization's trade dispute settlement mechanism have been weakened by the impasse over the Appellate Body. The agreements reached at the Twelfth Ministerial Conference of WTO have renewed some confidence in the multilateral trading system's ability to address global challenges. However, major trading powers have resorted to unilateral actions, including the imposition of tariffs and trade restrictions, bypassing the rules-based multilateral trading system that relies on voluntary compliance and limited enforcement mechanisms. The international community could consider how a fourth international conference on financing for development can contribute to revitalizing discussions in the multilateral trading system and the WTO.

48. The Addis Ababa Action Agenda reiterates the importance of increasing exports from developing countries, in particular from the least developed countries. However, the Goal target of doubling the least developed countries' share of global exports by 2020 remains unmet. Digitalization could be an avenue to closing that gap, with digital trade and e-commerce growth offering fresh pathways for businesses, especially in developing countries and small and medium-sized enterprises, to engage in international trade. At the same time, advanced digital production technologies are making it more difficult for developing countries to participate in global value chains and could lead to further marginalization of the least developed countries. Policymakers must take proactive measures and commit to international collaboration in order to ensure equal access to the benefits of the digital economy, foster open trade and address multilateral challenges. The international community could

consider how a fourth international conference on financing for development can support developing countries in boosting their exports in the context of rapid technological change.

49. Developing countries that are heavily reliant on primary commodity exports face major socioeconomic challenges. Twenty-seven out of 32 countries classified as having a low human development index, and 33 out of the 46 least developed countries, are commodity-dependent.<sup>18</sup> In the current structure of the commodity global value chain, most commodity-dependent developing countries export raw materials, capturing only a minimal share of value added. Other challenges include high volatility of commodity prices owing to financialization of commodity markets, tariffs and non-tariff barriers. Strategies to increase countries' participation in higher-value value chains as a path to economic diversification are key for structural transformation and sustainable development. The international community could consider how a new international agreement can help commodity-exporting countries to unlock value from resources and promote developing countries' participation in higher-value global value chains.

## E. Debt and debt sustainability

50. Sovereign borrowing is an important tool for financing Sustainable Development Goal investments and enabling counter-cyclical fiscal policy, such as was introduced in response to the pandemic in 2020 and 2021. If financing is not available on affordable terms, or if it is not used well, debt can constrain policy space and jeopardize fiscal sustainability. Sovereign debt crises are difficult to resolve in the current system and are extremely costly socially, often setting back development progress by a decade.

51. Sovereign debt sustainability concerns have dramatically increased since the outbreak of the COVID-19 pandemic, as the confluence of global shocks since 2020 have pushed many countries toward debt crises. Eleven countries (from among the least developed countries and other low-income countries) are currently in debt distress, and another 25 are at high risk.<sup>19</sup> In total, almost 40 per cent of all developing countries (52 countries) suffer from severe debt problems and extremely expensive market-based financing.<sup>20</sup> While these countries account for only 2.5 per cent of the global economy, they are home to 15 per cent of the global population and 40 per cent of all people living in extreme poverty. They include more than half of the world's top 50 most climate-vulnerable countries.

52. Managing sovereign debt and addressing debt crises has been a key item on the financing for development agenda. Since 2015, there has been some progress in this area in response to recent shocks and crises, such as the establishment of the Common Framework for Debt Treatments, increased debt transparency and the nascent use of climate-resilient debt instruments. However, progress has not kept pace with growing debt challenges and more complex debt markets.

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<sup>18</sup> *State of Commodity Dependence 2023* (United Nations publication, 2023).

<sup>19</sup> Assessment of external debt distress ratings for least developed countries and other low-income countries, using the IMF and World Bank Debt Sustainability Framework for Low-Income Countries. Available at [www.imf.org/external/pubs/ft/dsa/dsalist.pdf](http://www.imf.org/external/pubs/ft/dsa/dsalist.pdf) (accessed on 26 June 2023).

<sup>20</sup> This number represents the sum of all developing countries that have a credit rating of "substantial risk, extremely speculative or default" and/or a debt sustainability analysis risk rating of "in distress or at high risk of debt distress" and/or a bond spread of more than 1,000 basis points. See *Financing for Sustainable Development Report 2023* (United Nations publication, 2023).

53. There are several ways in which sovereign debt markets could be improved to lower the cost of borrowing, mobilize affordable financing for Sustainable Development Goal investments and help to prevent debt crises. Existing tools, such as the IMF and World Bank debt sustainability assessments for low-income countries, are under review to determine, inter alia, whether such assessments adequately reflect the growth impact of fiscal consolidations and how to capture long-term risks, such as climate risks, as well as the positive impact of investment in resiliency and productivity on debt sustainability. Another enhancement would be to better distinguish between liquidity and solvency crises. This distinction is important in the context of scaling up official lending as part of efforts to grow the multilateral development bank system. Credit assessments by private credit rating agencies also need greater transparency and improvement. An official sector baseline comparison could help to delineate the subjective elements of credit ratings. Sovereign debt markets can also be improved by enhancing debt contracts. A fourth international conference could further support the uptake of climate-resilient debt clauses and other State-contingent clauses in both public and commercial lending. A reference framework for debt swap deals, building on ongoing work, could support the scaling up of such instruments to create additional fiscal space for Sustainable Development Goal and climate investments. Debt management capacity development activities could also be further stepped up, along with additional global efforts to enhance transparency. The international community could consider which measures a fourth international conference on financing for development can advance to make debt markets work better for Sustainable Development Goal investments and reduce the risks of sovereign debt crises.

54. The international community has struggled to resolve sovereign debt crises in a timely and effective manner, at great social cost. Despite efforts to enhance debt resolution processes – principally through the establishment by the Group of 20 of the Common Framework for Debt Treatments – debt restructurings have remained slow, with only two restructurings advancing significantly since the Common Framework was set up. For example, it took more than two years for Zambia to reach an agreement with its official creditors in June 2023. This slow progress has contributed to countries delaying the decision to seek restructurings. Middle-income countries in distress are not eligible. Their restructurings, proceeding outside the Framework, are marred by similar delays. The international community could consider how a fourth international conference on financing for development can help to close architecture gaps to finally meet the commitment in the financing for development outcomes to achieve debt restructurings that are timely, orderly, effective, fair and negotiated in good faith.

55. A range of contractual, legal and institutional options and proposals have been put forward and extensively discussed. They include further refinement and adoption of relevant contractual clauses; legal measures in key jurisdictions to limit and disincentivize hold-out behaviour by private creditors; consideration of a multilateral legal framework; and institutional innovations to provide technical and financial support to facilitate restructurings, either in developing countries or in a multilateral institution. The Secretary-General has put forward a two-step proposal in his policy brief on reforms to the international financial architecture, including the initial setting of a debt workout mechanism at a multilateral development bank to support the implementation of the Common Framework, and, subsequently, the establishment of a sovereign debt authority. A fourth conference and its preparatory process could consider and reach consensus on options for strengthening the debt resolution system.

## F. Addressing systemic issues

56. The current international financial architecture is not fit for purpose in a world characterized by unrelenting climate change, increasing systemic risks, extreme inequality, highly integrated financial markets vulnerable to cross-border contagion and dramatic demographic, technological and geopolitical changes.

57. In the financing for development process, Member States have recognized the importance of a supporting international architecture, which requires coherence of the international monetary, financial and trading systems, as well as coherence across the economic, social and environmental dimensions of sustainable development. Some have used the term “non-system” to describe the existing set of international financial frameworks and rules, institutions and markets that has evolved, often in an ad hoc fashion, with different phases of economic globalization. This lack of coherence and coordination has resulted in disjointed responses to economic, financial, food, energy and related crises.

58. The Our Common Agenda policy brief on reforms to the international financial architecture<sup>21</sup> sets out ambitious recommendations for reforming the international financial and tax architecture in six areas: (a) global economic governance; (b) debt relief and the cost of sovereign borrowing; (c) international public finance; (d) the global financial safety net; (e) policy and regulatory frameworks for sustainability and stability; and (f) the global tax architecture.

59. To help rebuild trust in the multilateral system, reform should start with more inclusive and, ultimately, more effective global economic governance. The current arrangements and governance of international financial institutions, created almost 80 years ago at a United Nations conference with only 44 delegations present (compared with the 190 members of IMF and the World Bank today), have not been fundamentally reconsidered. Notwithstanding some improvement between 2005 and 2015, the representation of developing countries in international financial institutions, regional development banks and standard-setting bodies has remained largely unchanged. The international community could consider how a fourth international conference on financing for development can support more coherent, democratic and representative global economic governance.

60. The global financial safety net, with IMF at its centre, has come under enormous stress in recent years, revealing significant gaps in the architecture. Reducing capital account volatility and strengthening the global financial safety net has been on the reform agenda of the international community for decades, but the size of IMF has not grown in line with the size of the global economy or cross-border trade and financial flows. The August 2021 allocation of special drawing rights was critical to helping Member States to respond to recent crises, but the allocation mechanism (developing countries received one third of the issuance, with least developed countries receiving less than 2.5 per cent) meant that the issuance was not effective in targeting needs. Developed countries with unused special drawing rights have committed to rechanneling \$100 million unused special drawing rights, although, as of June 2023, only a little over half of that amount has actually been rechannelled (primarily through the Poverty Reduction and Growth Trust and the Resilience and Sustainability Trust of IMF). The policy brief on the international financial architecture also calls for more automatic issuance of special drawing rights in times of crises and calls on the international community to develop creative mechanisms to more efficiently reallocate them. The international community could consider how a

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<sup>21</sup> United Nations, “Our Common Agenda policy brief 6”.

fourth international conference on financing for development can help to address these challenges and support further strengthening of the global financial safety net.

61. While a range of financial regulations were updated in the wake of the 2008 financial crisis, new digital financial instruments, including cryptoassets, present new risks. In addition, financial regulatory norms are not yet addressing climate risks, including both the risks to the financial system and the impacts of the financial sector on climate risks. Given the unprecedented nature of climate change, regulators and financial institutions are unable to use historical data to calibrate their response. A fourth international conference on financing for development could bring together various communities, including regulators, governments, financial institutions and other private sector actors and civil society, to find solutions to promote stable and sustainable financial markets.

62. Digitalization has reshaped finance. It provides opportunities to enhance the efficiency of outmoded financial infrastructure, such as the payment system. The rise of digital payments and recent experimentation with central bank digital currencies could further reshape the plumbing of all economic transactions. A fourth international conference on financing for development can explore how these changes impact sustainable development, support peer learning and address questions of interoperability of payment systems to reduce the cost of cross-border transactions for developing countries.

## **G. Science, technology, innovation and capacity-building**

63. Science, technology and innovation solutions are key means of implementing the Sustainable Development Goals, as recognized in the Addis Ababa Action Agenda. Since 2015, the global technology landscape has evolved dramatically, shaped by global trends including the rapid digitalization of economies and the growing urgency of addressing climate change. While a more widespread adoption of new and emerging technologies can support greater progress towards sustainable development, it also gives rise to new risks and policy challenges.

64. The COVID-19 pandemic sped up the pace of digital transformation, with potentially deep and long-lasting consequences. Digital trends have accelerated across a wide range of economic and social activities, including health, telework, e-commerce, education, government services and digital finance. These trends are unlikely to be reversed, rendering digital connectivity and the use of digital devices a growing necessity. This has exacerbated the cost of digital exclusion, contributing to deeper inequities between and within countries. The international community could consider how a fourth international conference on financing for development can support the closing of digital divides, particularly in digital financial services, and how could it support countries to harness innovative financial services while also ensuring that potential threats to financial stability are mitigated.

65. The rapid growth in financial technology (fintech) has been an important driver of financial inclusion in recent years. By easing market friction and reducing the costs of financial services, fintech has helped to broaden access to finance for vulnerable populations. Fintech innovations are most prevalent in the payments sector, with the emergence of new forms of digital payments such as e-money and mobile wallets. Fintech has also been instrumental in reducing the cost of cross-border remittances. However, the proliferation of fintech has generated risks that policymakers need to address, including worsening digital exclusion, cyberincidents and digital fraud.

66. Advanced digital production technologies, such as artificial intelligence, advanced robotics and big data analytics, are not only reshaping production processes, but could also render traditional development pathways obsolete. They are making it



more difficult for firms to become competitive or join global production networks, posing challenges for most firms in developing countries. The growing use of artificial intelligence and robotics could also lead to large losses in routine and manual jobs, which make up a large share of manufacturing jobs in developing countries.

67. While recent innovations in energy technologies and systems create the prospect for rapid and sustainable energy transitions, clean energy investments have remained concentrated in the developed countries and China. In many developing countries, annual capital expenditure on clean energy has remained stagnant at 2015 levels, reflecting in part the challenges that these countries face in mobilizing finance for capital-intensive, low-carbon energy projects. The international community could consider how a fourth international conference on financing for development can stimulate investment in global energy transition and enable developing countries to integrate productively into the global economy. It could further consider what role the Technology Facilitation Mechanism and the Technology Bank for the Least Developed Countries can play in this regard, building on the lessons learned since the adoption of the Addis Ababa Action Agenda.

#### **IV. Data, monitoring and follow-up**

68. The Addis Ababa Action Agenda marked the first time that data issues had received comprehensive treatment in the financing for development conferences and follow-up processes. While the need for data and statistics has intensified since the adoption of the 2030 Agenda, funding remains inadequate. Progress on data frameworks, measurements and collection and financing for data and statistics has not kept pace with demand. With seven years until the deadline for achieving the Goals, significant data gaps on the Goals persist. In addition, funding for statistical systems and data ecosystems remained flat after 2015 and has fallen since the COVID-19 pandemic. The international community could consider how a fourth international conference can mobilize high-level political and financial support for data and statistics.

69. GDP is a long-standing measure of economic prosperity, with GDP per capita often used to broadly measure average living standards or economic well-being in various countries. However, there are concerns about the limitations and inadequacy of GDP, particularly as it is a short-term measure that does not encompass many dimensions of well-being, inequality, economic sustainability (such as increasing indebtedness) and environmental sustainability. In his 2021 report *Our Common Agenda*, the Secretary-General called for new measures to complement GDP. In response, the United Nations system, through the High-level Committee on Programmes core group on beyond GDP, has proposed a framework for beyond GDP metrics as well as a political and technical process to move it forward. A fourth international conference could complement these efforts, focusing on how such measures could inform the allocation of and access to concessional financing, and other development finance decisions.

70. The annual Economic and Social Council forum on financing for development, which includes a special high-level meeting with WTO, the United Nations Conference on Trade and Development and the Bretton Woods institutions, is the key mechanism for the follow-up of financing for development outcomes. This feeds into the overall follow-up and review of the 2030 Agenda. Deliberations of the Development Cooperation Forum and the High-level Dialogue on Financing for Development of the General Assembly are also part of the process. The Inter-Agency Task Force on financing for sustainable development was set up to report annually on progress on the Addis Agenda. The international community could consider how a

fourth international conference on financing for development can further strengthen the financing for development follow-up process.

## V. Conclusion

71. The challenges of the moment, which are putting the Sustainable Development Goals in peril, merit the attention and focus of policymakers at the highest level. Given that many of the current challenges are global in nature, national actions need to be complemented by a commensurate international response, underwritten by a renewed global partnership, as envisaged in the financing for development outcomes and highlighted by Our Common Agenda. Revisiting and updating this global partnership can also rebuild trust in multilateralism and in the ability of the international community to find common solutions to common challenges.

72. The financing for development process brings together all Member States and other stakeholders to advance economic and financing policies that further sustainable development across economic, financial, social and environmental dimensions. Many of the questions that it needs to address, and that have been raised above, are politically challenging, but also technical in nature. Resolving them will require sustained engagement by technical experts that have the political backing and mandate to address them. A successful conference will therefore depend on a preparatory process that engages experts from capitals early on and in a sustained manner.

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