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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 78/231, entitled "Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development". The report is focused on emerging challenges and key accelerators for financing for development, with a view to informing discussions on and preparations for the fourth International Conference on Financing for Development, as requested in the resolution. In the report, the main trends affecting financing for development and key questions and challenges that the 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, are laid out.

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I. Introduction

1. As noted by the Inter-Agency Task Force on Financing for Development, financing for development is at a crossroads.[1] The world is severely off track with regard to achieving the Sustainable Development Goals by 2030. Progress on around half of the 140 Goal targets for which sufficient data are available deviates from the desired trajectory.[2] According to current projections, almost 600 million people will live in extreme poverty in 2030, more than half of them women. In addition, 2023 was the hottest year on record by a significant margin and fossil fuel use reached a record high.

2. Financing challenges are one of the key reasons for slow progress and regression. Financing gaps are large and growing; developing countries do not have access to affordable financing at anywhere near the necessary scale; and budget allocations, investments and national and international policy frameworks and governance arrangements are still not fully aligned with the Goals.

3. The fourth International Conference on Financing for Development presents an opportunity to address and overcome those challenges, to facilitate an investment push for the Goals and to create an international financial architecture that is fit for purpose. To support preparations for the Conference, in the present report, trends and challenges across the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development are examined, and recommendations as to how such challenges could be addressed during the Conference are made. In section II, progress is assessed; key challenges are noted; questions for consideration by Member States are highlighted; and some initial ideas on policy recommendations, building on discussions on these issues in relevant forums, are put forward. In section III, data and the follow-up process are examined.

II. Action areas of the Addis Ababa Action Agenda

A. Domestic public resources

4. Domestic public resources – in particular the mobilization of additional tax revenue – are central to financing development. Robust and resilient fiscal systems, including both tax and expenditure, are critical to financing sustainable development and implementing the Sustainable Development Goals, including by contributing to the alleviation of poverty and reduction of inequalities, while supporting economic growth, industrial transformation and environmental sustainability. Domestic public resources form a critical part of the social contract between governments and their people, whereby people pay taxes and receive valued public goods and services in return.

5. Despite revenue gains in the first decade of the 2000s, median revenue ratios have been stagnant for most categories of countries since 2010, with further setbacks associated with the coronavirus disease (COVID-19) pandemic. Only a fraction of countries have seen rapid revenue gains sustained over time. Large unmet tax potential remains in developing countries, and there is a pressing need to reform fiscal

[1] *Financing for Sustainable Development Report 2024: Financing for Development at a Crossroads* (United Nations publication, 2024).

[2] *The Sustainable Development Goals Report 2023: Special Edition* (United Nations publication, 2023).

systems and address challenges in international tax cooperation to tap that potential and generate resources on the scale required for achieving the Goals.[3]

Domestic revenue mobilization

6. Analyses of long-term trends in revenue mobilization have shown that two thirds of countries experienced improvements of tax-to-gross domestic product (GDP) ratios in the first decade of the 2000s. Many of the rapid increases in tax revenue mobilization were in countries that simultaneously embarked on revenue administration and tax policy reforms. Revenue gains, however, have been volatile and have not been sustained in recent years, while authorities have struggled to contain tax avoidance and evasion.

7. In terms of the tax mix, developing countries are more dependent on consumption taxes and corporate income taxes, owing in part to digitalization and globalization, and to information and capacity constraints. By contrast, developed countries rely strongly on personal income taxes and social insurance contributions. Trade taxes (tariffs) have declined in prominence, although they remain important in countries in special situations. At the same time, there has also been an increase in the use of domestic excise taxes in developing countries, for example, on fossil fuels, tobacco, alcohol, sugar-sweetened beverages and plastic bags, although work remains to be done to better align the fiscal system with the Goals.

8. Strengthening the institutions tasked with collecting revenue is vital for building tax capacity. Tax administrations are a key governmental contact point and shape the citizen-State relationship. Greater digital adoption in revenue administrations is associated with higher revenue collection and reduced compliance gaps. Nevertheless, developing countries have lower levels of electronic filing and online payments, even in cases where gaps are closing. Data capacities are also essential for effective implementation of international tax transparency mechanisms. Increased revenue, including from changes to international tax norms, will only flow with investment in strong administrative capacities, and the fourth International Conference could prioritize cooperation and support in this area.

9. The Addis Ababa Action Agenda included a commitment to modernized, progressive tax systems. Revenue increases require the strengthening of the design and administration of core taxes – value added tax, excises and personal and corporate income taxes – with a focus on broadening tax bases and combating tax avoidance and evasion. Taxing wealth and real property could generate additional revenue and be redistributive. Achieving the Sustainable Development Goal targets on inequality will only be possible by implementing progressive taxes in combination with the promotion of equal access to public goods and services.

10. Wealth inequality has been steadily rising as capital income tax rates have fallen and net wealth taxes have been abandoned. In many countries, capital income is taxed at a lower rate than income from labour, but, at the same time, tax avoidance and evasion by the wealthy have become more politically salient. Improving the taxation of wealth, so that high-net-worth individuals contribute their fair share of taxes, would generate additional revenues while reducing inequalities. In the light of increasing digitalization, including in tax administrations, and increasing tax transparency as a result of international cooperation, governments may be able to more effectively administer taxes related to wealth. The fourth International Conference could advance consensus on increasing capital income taxes, introducing international cooperation on net wealth taxes, instituting a small tax on the extremely wealthy, or improving the valuation and taxation of property.

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[3] *Financing for Sustainable Development Report 2024*.

International tax cooperation

11. Under the Addis Ababa Action Agenda, Member States agreed that international tax cooperation should be universal in approach and scope and should fully take into account the different needs and capacities of all countries. At the time of that agreement, bilateral relationships and agreements were predominant. Since then, there has been a pronounced shift towards multilateral tax cooperation. International tax cooperation has moved beyond relief from double taxation on cross-border economic activity and the allocation of taxing rights towards the determination of tax norms aimed at limiting tax avoidance and evasion of corporate income taxes and towards the enhancement of tax transparency.

12. There is heightened global attention to making international tax cooperation fully inclusive and more effective, including an examination of how international tax rules respond to the needs, priorities and capacities of developing countries. This is coupled with the realization that international tax cooperation should go beyond corporate income taxes to include, for example, the fight against tax-related illicit financial flows and environmental taxation. In December 2023, the General Assembly decided to establish a Member State-led open-ended ad hoc intergovernmental committee for the purpose of drafting terms of reference for a United Nations framework convention on international tax cooperation. The committee will submit the draft terms of reference to the General Assembly for consideration at its seventy-ninth session.

13. The work of the ad hoc committee is a historic step towards building a legitimate, fair, stable, inclusive and effective international tax cooperation system. Inclusiveness is essential for the effectiveness of international tax norms and, in turn, benefits governments of all sizes, businesses and civil society. A United Nations framework convention should help place tax issues in a wider sustainable development context, with flexibility and resilience to ensure effective and equitable results over time. The fourth International Conference can build on any relevant decision taken by the General Assembly at its seventy-ninth session by agreeing to complementary measures to strengthen international tax cooperation, such as committing greater resources to tax capacity-building, considering how to integrate regional tax organizations into a more cohesive global framework, strengthening the role of the Committee of Experts on International Cooperation in Tax Matters in the new context and considering how to ensure enhanced normative coordination in all areas of financial integrity policies.

Expenditure

14. Public spending is a powerful instrument to incentivize and deliver sustainable development. All countries have scope to better align public expenditure with the achievement of the Sustainable Development Goals. The fourth International Conference could tackle the challenge of better aligning expenditure with the Goals and supporting fiscal policies to reduce inequalities.

15. Progress has been made, for example, on financing social protection systems since 2015, with most countries having schemes in place that are anchored in national legislation. These schemes cover all or most areas of social protection, although in some cases they cover only a minority of the population. Progress is still weak on aligning budgets with gender equality, with only one in four countries having a comprehensive gender-responsive budgeting system. Under the Addis Ababa Action Agenda, Member States also committed to rationalize inefficient fossil-fuel subsidies that encourage wasteful consumption; however, estimates of implicit and explicit fuel subsidies reached a record high of $7 trillion in 2022.

16. Efforts to coordinate adequate domestic expenditure on agreed international goals have often faltered. There are also political economy challenges (particularly fossil fuel subsidy reform) thought to hurt the poor and middle class, and a lack of political will to change expenditure systems in which powerful domestic interests may be benefiting from the current system. The fourth International Conference could consider setting international ambitions and targets for scaling up universal social protection based on coverage or expenditure. It could also establish more robust accountability mechanisms for delivering effective gender-responsive budgeting and agree to coordinate carbon pricing policies among large economies.

National development banks

17. National development banks are increasingly seen as a critical part of the global financial system and an important tool for mobilizing financing and ensuring that expenditures and investments are aligned with sustainable development. The accumulated assets of public development banks totalled around $23 trillion in 2021. This amount includes the assets of 10 "megabanks" that hold 70 per cent of the total – roughly the equivalent of the assets of the entire banking sector of the United States of America.

18. Coordination between public development banks has grown enormously since the agreement on the Addis Ababa Action Agenda, in which their role was highlighted. The effort has been led by the Finance in Common Summit, which was launched following the third International Conference on Financing for Development. The commitment made in June 2023 by 530 multilateral, regional and national public development banks to work as a system and cooperate to align their activities with sustainable development is a milestone in strengthening the potential contributions of national development banks.

19. The international community could consider how a new international agreement could build on progress in cooperation and coordination of the system of public development banks to increase their impact. The fourth International Conference could call upon public development banks to work more closely as one system, as part of broader financial architectural reform. For example, given their local knowledge, national development banks could help address bottlenecks in project pipelines, project generation and investment policy and planning, in collaboration with regional and multilateral development banks, based on comparative advantages. This effort could entail scaling up the capitalization of national development banks, alongside robust and sustainability-linked accountability frameworks to ensure sound governance. Other options include strengthened capacity-building and information-sharing between public development banks, scaled-up co-financing, exposure exchanges and risk management, joint guarantees and other joint mechanisms.

B. Domestic and international private business and finance

20. Private business activity, investment and innovation are major drivers of productivity, employment and economic growth. However, despite growing interest by private actors in sustainability, private finance and investment are often not aligned with sustainable development. Much work remains to be done to ensure that business activity and investment – whether domestic or foreign – is fully aligned with the Sustainable Development Goals.

Investment in the Sustainable Development Goals

21. Private sector dynamism has slowed in the past 15 years, with private investment growth below levels of the first decade of the 2000s in most regions.

Foreign direct investment growth slowed dramatically, increasing by only 0.8 per cent on average in the 2010s, compared with 8.0 per cent in the previous decade. Manufacturing, which has historically often been at the heart of sustained growth and economic diversification, is becoming less effective as a "development escalator". Least developed countries in Africa have seen manufacturing value added largely stagnate as a share of GDP over the past 20 years. At the same time, digitalization has opened up opportunities in modern services sectors and the export of such services.

22. The investment gap across all Sustainable Development Goal sectors is estimated to have increased from $2.5 trillion per year in 2015 to more than $4 trillion per year in 2024, owing to underinvestment and growing needs.[4] In particular, there are shortfalls in global investment in transition sectors, such as the energy and infrastructure sectors. While international investment in renewable energy has nearly tripled since the adoption of the Goals and the Paris Agreement, that growth has been unbalanced, with much of it concentrated in developed countries and China.

23. To mobilize private investment and systemically change private business practice and investment patterns, profitability and sustainability incentives must be more closely integrated. Efforts to create an enabling environment for the private sector and the provision of relevant public goods must be fully aligned with sustainable development. The rules of the game (i.e. the monetary, fiscal and regulatory environment in which companies operate) must change to enable sustainable practices. Fiscal, tax and regulatory frameworks need to reflect social and environmental priorities, such as by pricing externalities (e.g. through carbon pricing mechanisms), phasing out harmful subsidies, or prohibiting activities with negative impacts (such as single-use plastics).

24. Targeted policies to promote private sector development – so-called green or sustainable industrial policies – are experiencing a revival around the world; however, many developing countries face fiscal and capacity constraints that risk creating unlevel playing fields. There are calls for increased international support for scaling up private capital, such as through blended finance, although so far these calls have mobilized approximately $213 billion in capital, far below the trillions projected to be unlocked a decade ago.

25. The fourth International Conference could endorse an updated and broadened understanding of enabling environments aligned with sustainable development; lay out a new definition of industrial policies for sustainable development, for which the United Nations system can support delivery; and define new modalities for blended finance that support countries most in need, while ensuring fair sharing of both risk and returns between the public and private sectors.

26. The fourth International Conference could also encourage the identification and replication, at scale, of successful examples of blended finance structures, building on the documentation of examples of both successful and unsuccessful transactions, as is being done by the Global Investors for Sustainable Development Alliance along with efforts undertaken by multilateral development banks. This could help donors, development banks and private partners standardize approaches and reduce complexity, risks and lead times for blended finance transactions and vehicles. The fourth International Conference could also encourage the creation of investment vehicles and of a currency fund that offers currency hedging for investments, while managing risk through diversification using a portfolio approach.

27. To improve project pipelines under the Goals, the fourth International Conference could commit to scaling up capacity-building and strengthening engagement with national and local actors, such as national development banks, that

[4] Ibid.

have local knowledge and mandates well aligned with domestic sustainable development priorities. Capacity-building support should be guided by country priorities as expressed in national financing strategies, such as through integrated national financing frameworks, with coordinated support from development finance institutions and the United Nations system.

Aligning private flows with the Sustainable Development Goals

28. Sustainable business and finance have surged over the past 25 years, with companies and investors engaging in voluntary sustainability initiatives. Sustainable investing reached $30.3 trillion in 2022, marking a significant increase since 2015. Nonetheless, sustainable fund assets were estimated to make up less than 5 per cent of the global fund market in 2023, with impact assets, which optimize the impact of the Goals alongside financial profitability, representing only a small subset.

29. Deficiencies in the sustainability information infrastructure exacerbate concerns over greenwashing and compound entrenched traditional investment incentives. In response, the sustainable investment industry has commenced a journey towards maturation, marked by the refinement and consolidation of voluntary reporting standards, as called for under the Addis Ababa Action Agenda, and the enactment of legislation at the national and regional levels. The International Sustainability Standards Board, established during twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change, held in Glasgow, United Kingdom of Great Britain and Northern Ireland, has made significant strides in standardizing non-financial reporting, with several countries currently contemplating adoption. As part of the Board's framework, a financial materiality lens is adopted, focusing exclusively on the impact of non-financial risks – in particular climate-related risks – on businesses' financial performance to facilitate investor decision-making. The framework does not encompass the impact on sustainability, such as private sector environmental and social externalities, or positive contributions to the Goals.

30. A key challenge remains in turning the substantial interest concerning sustainable business and finance into transformative change in business behaviour and investment patterns. To do so, countries must create the right enabling environments by incentivizing sustainable investments and disincentivizing traditional strategies. One of the preconditions will be to further improve sustainability management frameworks and measurement standards to enhance the credibility and realization of corporate commitments.

31. The Conference could advance global dialogue, including on enhancing the interoperability of sustainability legislation for the private sector (e.g. national and regional taxonomies, disclosure legislation and corporate governance legislation) across jurisdictions to prevent uneven progress and fragmentation, while considering regional and local specificities, as well as the needs of the 2030 Agenda for Sustainable Development. The Conference could also encourage the implementation of national disclosure standards with a double materiality approach, with the aim of fulfilling the objectives of the Addis Ababa Action Agenda while leveraging the foundation laid by the International Sustainability Standards Board.

Financial inclusion

32. Financial inclusion has improved dramatically over the past decade, with digitalization lowering the costs of financial services. However, gender and location continue to affect access to financial services and access to long-term finance remains a challenge, especially for small and medium-sized enterprises in developing countries. The gender gap in account ownership remains significant: in 2021, 78 per

cent of men and 74 per cent of women had access to financial services. Migrant remittance costs fell from 7.7 per cent in the second quarter of 2015 to 6.2 per cent in the second quarter of 2023 but are still above the 3 per cent target of the Addis Ababa Action Agenda and 2030 Agenda.

33. Strengthening financial inclusion and promoting access to long-term finance will require developing countries to enhance the size, liquidity and maturity of their financial and capital markets. The Conference could recommit the international community and enhance international support in this regard.

C. International development cooperation

34. Amid the climate emergency and rising systemic risks, as well as persisting poverty, inequality and other crises, demands on international development cooperation have been increasing. Although development partners have responded, rising needs are far outpacing the resources and cooperation provided. The development cooperation landscape has also become more complex, with greater diversity of actors, modalities and instruments. In this rapidly changing and challenging context, the scale, effectiveness and impact of development cooperation are being re-evaluated to ensure that they are fit for purpose for today's challenges.

Official development assistance

35. Official development assistance (ODA) reached a record high of $223.7 billion in 2023, representing only 0.37 per cent of donor-country gross national income, which means it remains well below the United Nations target of 0.7 per cent. Bilateral aid to the least developed countries increased by 3 per cent to $37 billion, or 0.12 per cent of donor gross national income, still below the United Nations target of 0.15–0.20 per cent. At the same time, global challenges, such as climate change and humanitarian emergencies, have taken up a growing share of aid spending. There is also growing recognition of the need to consider indicators beyond income, including vulnerability, in allocation decisions, which is compounding concerns over the size of the available ODA.

36. Shifts in the modalities of ODA delivery have had a profound impact on the allocation of resources, country ownership and effectiveness. For example, in-donor refugee costs and humanitarian aid as a share of total net ODA increased from around 9 per cent in 2000 to 25 per cent in 2022, while budget support, which is particularly well aligned with country priorities, has remained extremely low, reaching just 3.35 per cent of total ODA in 2022. Other modalities, such as blended finance, while still relatively small, generally bypass the least developed countries.

37. Efforts to update ODA measurements have focused on better reflecting the evolving development finance landscape. However, revised methodologies have been criticized owing to the risk of inflated aid reporting and the creation of incentives to shift the focus of ODA away from poverty eradication and long-term sustainable development interventions. Reforms in measurement should not jeopardize the fundamental nature and role of ODA or the credibility of ODA figures.

38. The fourth International Conference presents an opportunity to galvanize political support to fulfil long-standing ODA commitments and ensure support is effective and fully aligned with country priorities and development strategies. The Conference should identify ways to credibly deliver renewed momentum towards meeting ODA commitments on quantity and quality, including time-bound ODA increases.

Multilateral development banks

39. Multilateral development banks are a critical source of affordable, long-term finance and can play a countercyclical role during economic downturns and crises. Lending by multilateral development banks has increased significantly over the past two decades, from $30 billion in 2000 to $96 billion in 2022, although concessional funding decreased. In response to calls by the international community to massively scale up long-term financing for the Sustainable Development Goals, multilateral development banks are implementing or considering reforms to increase lending capacity, improve lending terms and better align operations with the Goals. In total, the reforms could yield $300 billion to $400 billion of additional lending capacity over the next decade.[5]

40. Under the Addis Ababa Action Agenda, multilateral development banks have been encouraged to make optimal use of their resources and balance sheets and to update their policies in support of the Goals. Building on the progress achieved since the adoption of the Addis Ababa Action Agenda, the fourth International Conference could galvanize further ambitious reforms to make the multilateral development bank system fit for purpose, in line with recommendations contained in the Sustainable Development Goal stimulus. Such efforts could include encouraging multilateral development bank shareholders to consider paid-in capital increases in a timely manner. The Conference should also encourage more cooperation among multilateral development banks, as well as between such banks and other public development banks. Such cooperation includes fully aligning their activities with client country priorities and strategies, for example, by strengthening country platforms anchored in existing national processes, such as integrated national financing frameworks. To ensure the impact of the Goals at the core of development bank operations and investments, the Conference should encourage public development banks to review reporting and internal incentives.

South-South cooperation

41. South-South cooperation has expanded in scale and strategic importance, as a complement to North-South cooperation. South-South cooperation had a significant impact during the COVID-19 pandemic, as it enabled the provision of quick and flexible financial and medical support (see A/78/290). The two South-led multilateral financial institutions established in 2015 have increased lending: the New Development Bank had approved financing of about $33 billion by the end of 2022 and the Asian Infrastructure Investment Bank had approved financing of almost $39 billion by the end of 2022.[6] Triangular cooperation, which links South-South and North-South cooperation, has grown modestly, in particular in Latin America, sub-Saharan Africa and the Asia-Pacific region. While triangular cooperation offers knowledge-sharing benefits, it also presents coordination challenges and increased transaction costs. The Development Cooperation Forum can provide a dedicated multi-stakeholder platform for strengthened knowledge-sharing and peer learning, and for ensuring policy coherence and complementarity among different actors and forms of international development cooperation.

Effectiveness of development cooperation in all its forms

42. Progress towards high-quality and high-impact international development cooperation has been uneven since the adoption of the Addis Ababa Action Agenda. Since 2015, there has been a decreased emphasis on the effectiveness principles of the development strategies of many traditional donor countries. The share of ODA

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[5] Ibid., page 106.

[6] Annual reports of the Asian Infrastructure Investment Bank and the New Development Bank.

reaching partner countries has plateaued, and there has been limited progress on country ownership, although there have been improvements in untying aid. The growing and increasingly diverse set of bilateral, multilateral and philanthropic development finance providers is contributing to growing fragmentation and higher transaction costs. The changing landscape calls for a new shared understanding of the guiding principles and practices of effective development cooperation. There is opportunity for a renewed inclusive debate on adjusting, translating and evaluating the principles with a view to facilitating their application in diverse country settings and by diverse development partners.

43. To revitalize and strengthen development effectiveness, through the fourth International Conference and its preparatory process, all development cooperation stakeholders could be convened to draw lessons learned from efforts to date, and to work towards a new consensus on practices and principles of high-quality and high-impact development cooperation. Such an effort would aim to foster policy coherence and complementarity among different actors and modalities. Actions at the country level, such as through integrated national financing frameworks, can help development partners align support with nationally identified and nationally owned objectives. The high-level meeting of the Development Cooperation Forum to be held in 2025 provides an opportunity for an open dialogue on these issues prior to the fourth International Conference.

D. International trade as an engine for development

44. After a period of rapid global trade expansion in the 1990s and first decade of the 2000s, trade dynamism slowed markedly after the 2008 global economic and financial crisis, alongside the deceleration of global value chains. Trade expansion was also uneven, with poor and vulnerable countries in Africa and Latin America and the Caribbean remaining largely marginalized, including in more dynamic segments, such as the services trade. In this challenging context and amid rising protectionism and threats to the multilateral trading system, traditional export-based development models have become harder to pursue, endangering the role of trade as an engine for development. Preserving an open international trading system underpinned by international cooperation is critical to achieving the Sustainable Development Goals, but is under threat as trade-restrictive measures, "friendshoring" and related measures increase.

Multilateral trading system

45. The World Trade Organization has played a central role in facilitating multilateral trade cooperation since its establishment in 1995, during a period of rapid trade expansion. However, economic shifts and divergent interests among members have led to a stalling of multilateral negotiations, with countries turning to bilateral and regional trade agreements and in some cases plurilateral negotiations, resulting in a complex web of overlapping arrangements. Challenges have also emerged in the dispute settlement mechanism of the World Trade Organization. In parallel, protectionist sentiments have risen and contributed to trade tensions and restrictions. Such international trade interventions are increasingly affecting developing countries. In 2023, 70.9 per cent of international trade interventions were carried out by advanced economies, with domestic and export subsidy policies most frequently used.[7] For example, efforts by developed countries to promote green transitions, such as the carbon border adjustment mechanism and deforestation regulation of the

[7] Simon Evenett and others, "The return of industrial policy in data", IMF Working Paper, No. WP/24/1 (International Monetary Fund, 2024).

European Union, can affect developing countries' access to important markets as a result of the reduced financing capacity to adapt to the required standards.[8]

46. The fourth International Conference should seek to further align the international trading system with sustainable economic development. This alignment includes a rules-based and transparent multilateral trading system, including revitalizing the functioning of the World Trade Organization, that prevents further fragmentation of trading relations. The Conference could also give impetus to the ongoing modernization of regional trade agreements and international investment agreements, to ensure that they are geared towards enhancing coherence between trade, investment and sustainable development, including with regard to gender equality, human rights and environmental sustainability – in particular climate action.

Integration of vulnerable countries into the global economy

47. There are continued challenges in integrating vulnerable developing countries into the global trade of goods and services, which could exacerbate inequalities. The participation of many developing countries in international markets in the past decades has been mainly through unskilled labour and low-value-added goods. Most vulnerable groups of countries remain dependent on raw commodities exports. In the period 2019–2021, 73.9 per cent of the least developed countries, 60.5 per cent of small island developing States and 81.2 per cent of landlocked developing countries were classified as commodity-dependent, compared with only 12.5 per cent of developed countries.[9]

48. Under the Addis Ababa Action Agenda, concern was expressed about excessive volatility of commodity prices and the need to adopt regulatory measures to ensure the proper functioning of markets. The Conference should discuss ways to ensure the proper functioning of commodity markets, with a view to improving transparency and accountability. It should also consider boosting financing for export processing to help commodity-exporting countries unlock value from resources and promote developing countries' participation in higher-value global value chains.

Trade financing

49. Eighty per cent or more of global merchandise trade depends on the provision of trade financing. Nevertheless, the financing gap has increased in recent years, with global annual unmet demand estimated at $2.5 trillion, primarily affecting small and medium-sized enterprises in developing countries. The Conference should encourage additional efforts by multilateral development banks and other public development banks so as to scale up their contributions to trade financing, including through collaboration on risk sharing, on-lending, co-financing, and capacity-building.

E. Debt and debt sustainability

50. Many developing countries are facing debt challenges that could not only lead to crises, but also impede investment in the Sustainable Development Goals, long-term sustainable development and climate action. Although debt levels stabilized after spiking in 2020, high debt servicing and refinancing costs and an increasingly complex debt landscape have led to higher debt vulnerabilities for many developing countries. Half of the least developed and other low-income countries are at high risk of, or already in, debt distress. The median debt service burden for the least developed

[8] *Trade and Development Report 2023: Growth, Debt, and Climate – Realigning the Global Financial Architecture* (United Nations publication, 2024).

[9] *State of Commodity Dependence 2023* (United Nations publication, 2023).

countries reached 12 per cent of government revenue in 2023, the highest level since 2000. Debt service burdens now consume over a fifth of tax revenue in 25 developing countries.

51. High refinancing costs, combined with high external debt repayments in 2024 and 2025, due in part to the end of the Debt Service Suspension Initiative, mean that debt service burdens will remain elevated. In the least developed countries, for example, external debt service will hover around $40 billion annually between 2024 and 2025, up from $26 billion in 2021. At the same time, for those countries facing unsustainable debt burdens, debt resolution processes are often protracted and have failed to deliver adequate relief.

Supporting countries with heavy debt service burdens, but not facing default

52. Borrowing is critical for financing investments in sustainable development. However, very high debt levels and debt servicing burdens can severely constrain fiscal policy space and crowd out Sustainable Development Goal-related investments. Heavy sovereign debt burdens also raise the cost of borrowing for private companies, affecting domestic business activity. While the ideal way to escape onerous debt burdens is to "grow out of debt", countries encumbered by severe debt challenges lack the capacity to do so.

53. The fourth International Conference provides an opportunity to facilitate a Goal-related investment push, including for countries facing severe debt challenges. Several proposals have been put forward for a development-oriented debt architecture. As part of the preparations for the Conference, relevant elements of a package of reforms to address challenges across country contexts could be identified. For countries with a significant share of official debt, this could include debt rescheduling on net-present-value-neutral terms by official creditors, for example, through the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, with predefined terms and triggers to accelerate progress. There is also growing agreement on the need to help debtor countries engaging with commercial creditors on voluntary rescheduling, and to scale up financial support, for example, through sweeteners (along with seniority for voluntary exchanges), debt buy-backs or standardized debt-for-Sustainable-Development-Goal swaps, which can be structured and priced to help ensure comparability of treatment when relevant. To deliver such support swiftly and at scale, the Conference could consider establishing an institutional home, which could, for example, be a scaled-up version of an existing facility, such as the World Bank Debt Reduction Facility. Such a facility could also provide countries with legal, capacity and financial support.

Supporting countries with unsustainable debt burdens

54. To achieve faster and sufficiently deep debt restructuring for insolvent countries, the international community must address creditor coordination challenges, as well as power imbalances between debtor countries and creditors.

55. The Conference should deliver on recommendations to strengthen the Common Framework, including by speeding up the process, providing greater clarity on the steps and timelines, introducing debt service suspension during negotiations and expanding coordinated debt treatments to highly indebted countries that are currently not eligible for the Common Framework. To enhance the comparability of treatment of commercial creditors, the use of enforcement provisions, such as claw-back and most-favoured creditor clauses, should be further scaled up. However, it should be noted that most-favoured creditor clauses put the onus of negotiating comparability of treatment on the debtor country, which may be ill-equipped to navigate complex restructurings involving several highly sophisticated creditors. The facility described

in paragraph 53 above could also play a key role in this regard, providing legal and financial support to countries. In addition, the International Monetary Fund (IMF) should continue to strengthen its arrears and financing assurance polices to help incentivize faster debt restructuring, building on the recently adopted reforms of these policies.

56. To further strengthen the sovereign debt architecture, the fourth International Conference could also lend its support to domestic legal approaches in order to enhance debt crisis resolution, including the treatment of commercial debt currently under discussion in important financial jurisdictions, and should encourage other jurisdictions to consider complementary measures. The Conference can also pave the way for further reform, such as an independent review of the sovereign debt architecture that provides recommendations, which could include consideration of a multilateral framework for sovereign debt workout.

Debt crisis prevention

57. Preventing debt crises requires progress across all action areas of the Addis Ababa Action Agenda: domestic resource mobilization and international tax cooperation, increased grant and concessional financing, and a supportive international economic environment. As part of the debt policy agenda, the fourth International Conference could further enhance debt transparency, scale up capacity support for debt management and encourage more systematic use of contingent debt instruments. The international community could also consider undertaking efforts to update principles for responsible borrowing and lending, with a view to reflecting the changing global debt landscape and to bringing together existing efforts.

58. The fourth International Conference could further encourage improvements in debt sustainability assessment frameworks, building on the ongoing review by IMF and the World Bank of their joint debt sustainability assessment for low-income countries. Such an improved framework needs to account for both Sustainable Development Goal financing needs and the impact of climate change from a longer-term perspective, as well as for impacts of Goal-related investments and investments in resilience. There is also a need for further consideration on the appropriate interest rate used in such frameworks, which could help to better distinguish between liquidity and solvency issues.

F. Addressing systemic issues

59. The current international financial architecture is not fit for purpose in a world characterized by increasing systemic risks, including climate change, extreme inequality, highly integrated financial markets vulnerable to cross-border contagion and dramatic demographic, technological and geopolitical changes. There is universal recognition of the need to better align global financial and monetary systems with the Sustainable Development Goals. The lack of coherence and coordination has often resulted in disjointed responses to economic, financial and other crises. As part of the decision to hold the fourth International Conference, the need "to support reform of the international financial architecture" was highlighted (see resolution 78/231, para. 29).

60. The world has experienced recurrent financial crises, with increasing cross-border transmission of instability having an impact on developing countries and the poorest people, who tend to be most deeply affected by economic instability. Global financial stability is especially sensitive to policies and developments in a few systemically important markets and instruments. Monetary policy decisions taken to counter inflationary pressures in developed countries in 2022 and 2023 have strongly affected capital flows to developing countries.

Global financial safety net

61. The global financial safety net, a multilayered arrangement for responding to crises with IMF at its centre, has come under strain in recent years, revealing both gaps in the architecture and uneven coverage. Bilateral swap arrangements among developed countries have become the tool of choice for fighting the spread of financial crises, but only a small volume of resources is available to most developing countries through multilateral and regional arrangements. Special drawing rights have been successfully allocated twice in crisis situations in the past 20 years, but a larger and more automatic role for special drawing rights in buffering external adjustment or providing a flexible source of finance capacity would require architecture reforms. As a result, many countries accumulate large international reserves to cushion volatility, but their accumulation has opportunity costs in terms of foregone investment.

62. With the expected increase in systemic risks and growing frequency and intensity of crises, including those related to climate change, Member States could leverage the fourth International Conference to consider how to further strengthen the global financial safety net so that it provides adequate financing to all in need. Potential solutions could include revamping the role of special drawing rights, such as more automated issuance of such rights in a countercyclical manner or in response to shocks, with allocations based on needs (or through ex ante agreements to expeditiously reallocate unused special drawing rights to countries in need, allowing for opt-out clauses); making IMF lending more flexible, with fewer conditionalities and access limits, and the removal of surcharges; and borrowing limits based on needs, rather than on quota multiples. The Conference could also consider further steps to strengthen regional financial arrangements and the establishment of a multilateral currency swap facility.

Financial sector stability

63. Continuing bank failures show that financial sector stability remains a challenge despite the measures taken following the 2008 financial crisis. The final implementation of the post-2008-crisis reforms to financial regulations and international standards is uneven globally, and certain risks remain outside the regulatory perimeter or scope of regulation. There are also industry pressures to roll back the implementation of banking standards. Some types of non-bank financial institutions are not subject to the same level of prudential requirements as banks, and new digital financial instruments, including cryptoassets, present new risks. Credit rating agencies faced new regulations following the 2008 crisis, but the standards have not addressed the role of rating agencies in challenges to long-term stable sovereign borrowing from the short-termism of markets.

64. In addition, financial regulatory norms are only gradually – and not yet sufficiently – addressing climate-related risks. Greening financial regulation is difficult, as regulators, supervisors and financial institutions alike face challenges quantifying the forward-looking nature of climate-related risks given the long-time horizons and high uncertainties. Market actors with short-term horizons can underestimate the systemic risks of climate change in their business-related and risk management decisions.

65. Finding solutions to these challenges requires regulators, governments, financial institutions and other private sector actors and civil society to be brought together to find solutions to promote stable and sustainable financial markets. The fourth International Conference should encourage all jurisdictions to regulate according to the principle of “same activity, same risk, same rules”, to address financial stability and integrity risks from both bank and non-bank financial

institutions. It should further encourage jurisdictions to address short-term incentives through tax incentives, incentive-based compensation, and the creation of long-term indices and credit ratings; and to update market regulations, standards and practices to put the Sustainable Development Goals, and especially climate action, at the heart of markets and economies. The Conference could also require clear Goal-oriented transition plans from each institution within the international financial architecture, and encourage all countries to design policy and regulatory frameworks to create and enforce direct links between profitability and sustainability.

Global economic governance

66. Legitimate and effective global economic governance can be viewed as a global public good, with the collective value provided by legitimate arrangements far outstripping the collective costs. However, the governance of international financial institutions still reflects decisions taken almost 80 years ago at a United Nations conference with only 44 delegations present. While the expansion of the membership of the international financial institutions has significantly diluted the voting shares of their original members, global economic governance has not kept pace with ongoing changes, including the rise of the global South and other economic and geopolitical changes, and is not aligned with today's global economy. Repeated commitments to increase the voices and representation of developing countries in global economic governance have been made in the United Nations and by the governing bodies of the international financial institutions. Some improvements to increase the voices and representation of developing countries were made between 2005 and 2015, but the pace and scale of change were not in line with changes in the global economy. There have been only minimal changes since 2015.

67. Creating more coherent, democratic, inclusive and representative global economic governance remains a challenge, especially since voting rights reforms can be viewed as zero-sum, and past commitments to reforms have proved insufficient to generate political will for changes in voting rights. Governments can also consider complementary reforms to decision-making rules, board structures, transparency and senior management selection processes. Efforts to link access to resources to needs and vulnerabilities instead of voting rights could also mitigate, to some extent, the lack of progress on formal voting rights.

G. Science, technology, innovation and capacity-building

68. Technology has greatly contributed to advancing sustainable development and resilience. It expands economic opportunities, safeguards people's well-being and provides hope that some of the most critical threats that the world faces can be addressed. The transformation of artificial intelligence from a decades-old niche field of study to a cornerstone of technological advancement provides an impetus to accelerate and amplify the positive impact of technology. Nevertheless, technology can also have unintended consequences for economic, social and environmental outcomes and for human rights. Automation has contributed to inequality, as it favours capital owners and higher-skilled workers. It also reduces the comparative advantage that many developing countries enjoy owing to lower labour costs. The growing dominance of major actors in technology sectors raises the risk of regulatory capture, which can hurt consumer welfare in the long run. Technologies such as artificial intelligence, which rely on a massive amount of data for training, can infringe on human rights, including the right to privacy, and can be difficult for poor countries with limited capacities to utilize. The environmental footprint of frontier technologies can be significant.

Access to technology as part of the Sustainable Development Goals

69. The global technology landscape has been characterized by high geographic concentration of innovation, while technology diffusion has slowed. Since 1980, the top 10 countries in terms of patent applications have consistently contributed to at least 87 per cent of the worldwide total. In the field of green technology, industrial firms from seven countries accounted for 90 per cent of all patenting activity in 2022. High-income countries have experienced increased international scientific cooperation across fields in the past decade, while many developing countries have seen only limited progress. The persistently high geographic concentration of research and development and slowed technology diffusion between and within countries have major implications for the technology divide and global economy.

70. The fourth International Conference provides an opportunity to address the enduring challenges that countries have faced in creating, accessing and applying technologies that advance sustainable development. The Conference could identify and address domestic and international hurdles that limit countries' capacities for innovation and technology absorption, and that lead to entrenched asymmetries between countries and firms. 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, and with a view to strengthening the coordination of these and other efforts within the United Nations system. The Conference could also consider setting up a facility that provides targeted support for countries in special situations to engage in international collaboration on research and development for the Sustainable Development Goals, building on the efforts of the Global Research Council, which brings together science and engineering funding agencies to improve research cooperation.

71. The growing recognition of the role of science, technology and innovation in achieving the Sustainable Development Goals necessitates the integration of mission-oriented, multi-stakeholder science, technology and innovation policies in development frameworks. The public sector should play a key role in financing and incentivizing research that advances sustainable development and in ensuring public access to such innovations. In this context, the Conference could consider setting up a multilateral facility, based on the recently launched World Bank Livable Planet Fund, that brings together not only public and private financing but also research and development capacity to generate targeted technological solutions to address the most pressing global development challenges.

Financing for science, technology and innovation and for financial technology

72. The rapid growth of the financial technology (fintech) industry has improved financial inclusion. However, there are still significant gaps in access to credit and services. To fully realize the potential of fintech and mitigate its risks, complementary investments in access to technology, financial and digital literacy skills, infrastructure and regulatory frameworks are needed. New risks have also emerged, as fintech can incentivize riskier activities and exacerbate the cyclicality of financial markets, especially as some fintech companies are not subject to the same financial sector regulations as other financial institutions.

73. The fourth International Conference could identify good practices to direct the design, execution and evaluation of frontier technologies, including artificial intelligence-based tools, within the fintech industry. It could task relevant stakeholders to develop a set of principles for the development and use of artificial intelligence in fintech to help ensure that the implementation of artificial intelligence is conducted in a manner that is safe, equitable and beneficial for all stakeholders.

III. Data, monitoring and follow-up

Data and monitoring

74. Data, including on financing, is crucial for assessing progress and achieving goals, but coverage and quality issues persist. Despite improvements in data and statistical systems, many information gaps remain, owing in part to underinvestment in public data systems and statistical activities. Despite substantial economic returns, Member States have not been able to capitalize on the power of data due to a lack of political prioritization, fragmentation, inadequate and siloed investment and shortfalls in capacity.

75. Securing adequate funding is essential for enhancing countries' data and statistical capabilities. Despite increasing international and domestic investments, large gaps remain. In response, a coordinated global financing architecture is emerging to help unlock the potential of data for development and risk analysis at scale. To capitalize on this momentum and advance efforts at the fourth International Conference, Member States could commit to accelerating progress on the Cape Town Global Action Plan for Sustainable Development Data, as well as supporting the high-impact initiative on unlocking the data dividend, the Clearinghouse for Financing Development Data and the World Bank Global Data Facility.

76. While the measurement of GDP is useful for economic analysis, it is not a comprehensive measurement of progress aligned with the 2030 Agenda. There is now political momentum to develop metrics beyond GDP. Work has also advanced on the measurement of South-South cooperation as part of Sustainable Development Goal indicator 17.3.1 on additional financial resources mobilized for developing countries from multiple sources. Member States could continue to support these processes, in particular the work of the Statistical Commission in advancing efforts to go "beyond gross domestic product," and the work of the United Nations Conference on Trade and Development in advancing the measurement of South-South cooperation.

Strengthening the financing for development follow-up process

77. One of the key outcomes of the Addis Ababa Action Agenda was the establishment of a dedicated financing for development follow-up and review mechanism. The mechanism consists of three main interlinked and mutually reinforcing components: the Inter-Agency Task Force on Financing for Development, the annual Economic and Social Council forum on financing for development follow-up and the quadrennial High-level Dialogue on Financing for Development.

78. The strengthened financing for development follow-up process has succeeded in addressing gaps identified in the earlier process. The Inter-Agency Task Force presents Member States with an annual assessment of implementation of the financing for development outcomes, with the *Financing for Sustainable Development Report* serving as a main input to the forum on financing for development follow-up. The forum, the centrepiece of the strengthened follow-up process, has succeeded in strengthening the participation of ministers of finance and central bank governors in United Nations financing discussions and helped to strengthen dialogue and collaboration between the United Nations and the Bretton Woods institutions. The forum has also served as an anchor for multi-stakeholder engagement with civil society organizations and the private sector, including through a Sustainable Development Goals Investment Fair, which has been organized on the sidelines of the forum since 2017. The High-level Dialogue on Financing for Development, held back-to-back with the Sustainable Development Goals Summit every four years, has served to galvanize commitment and action at the highest political level. Challenges remain, however, with the participation of Member States uneven, negotiations for

the forum outcomes hampered by tight timelines, insufficient space for engagement between Economic and Social Council and the Executive Directors of the Bretton Woods institutions, and sometimes limited consideration of regional perspectives.

79. The fourth International Conference should consider ways to further strengthen the follow-up process. For substantive monitoring of progress in implementation, Member States could task the Inter-Agency Task Force with developing an indicator framework, building on the relevant means of implementation indicators of the indicator framework of the Goals.

80. To strengthen national follow-up, Member States could commit to pursuing integrated national financing frameworks, in line with the commitment in the Addis Ababa Action Agenda and following the lead of more than 80 countries that have initiated such processes. To this end, the Conference could also scale up international support for country-led integrated national financing frameworks, building on work by the Integrated National Financing Framework Facility; Member States could also encourage the international financial institutions to consider supporting country-led integrated national financing frameworks, in accordance with their mandates.

81. To strengthen regional follow-up, the Conference could invite the regional economic commissions to organize regional consultations on progress in implementing the financing for development outcomes, and to report on findings and recommendations from their respective regions to a dedicated session of the forum on financing for development follow-up.

82. To strengthen global follow-up, the forum on financing for development follow-up could invite countries to present progress and challenges in implementing the financing for development outcomes, for example, in conjunction with their national voluntary review of the implementation of the Goals at the high-level political forum on sustainable development.