

Highlights of the Financing for Sustainable Development Report 2019



DESA
Financing



Financing for Development

About the Inter-agency Task Force on Financing for Development

The Inter-agency Task Force on Financing for Development is made up of more than 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. The major institutional stakeholders of the financing for development process – the World Bank Group, the International Monetary Fund, the World Trade Organization, the United Nations Conference on Trade and Development, and the United Nations Development Programme – take a central role, jointly with the Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs, which also serves as the coordinator of the Task Force and substantive editor of its annual report.

About the 2019 Financing for Sustainable Development Report

The 2019 Financing for Sustainable Development Report of the Inter-agency Task Force begins its assessment of progress with an analysis of the global macroeconomic context (chapter I), including sustainable growth, inequality and climate change. The thematic chapter (chapter II) presents four building blocks to operationalize implementation of the Addis Agenda at the country level through integrated financing frameworks. The remainder of the report (Chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda. The report also addresses, throughout its chapters, the means of implementation for the SDGs to be reviewed in-depth in 2019 at the United Nations High-level Political Forum on Sustainable Development, namely SDGs 4 (quality education), 8 (decent work and economic growth), 10 (reduced inequalities), 13 (climate action) and 16 (peace, justice and strong institutions).

HIGHLIGHTS OF THE FINANCING FOR SUSTAINABLE DEVELOPMENT REPORT 2019



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Main messages

The 2019 FSDR finds that despite signs of progress, investments that are critical to achieving the SDGs remain underfunded, calling for urgent global and national action.

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1 Global risks are rising

- Global growth is estimated to have peaked at 3%
- Debt risks are rising, with around 30 LDCs and other low-income countries at high risk of or in debt distress
- Capital flows remain volatile
- Greenhouse gas emissions are rising again, by 1.3% in 2017
- This puts our global aspirations at risk and raises the urgency of action

2 Rather than retreating from multilateralism, the international community must **strengthen collective action to address global challenges**

3 The multilateral system is under strain, but this difficulty can present **opportunity**. The global community is revisiting arrangements in

- Trade, debt, tax cooperation and other areas; in a rapidly changing global context
- The global community must use this opportunity to make these fit for purpose for sustainable development

4 Global approaches need to be complemented by **national actions**

- Governments should initiate **integrated national financing frameworks**
- The report provides steps for how countries can operationalize financing frameworks and strategies

5 Achieving sustainable development and combatting climate change requires a **long-term perspective**

- Yet, both public and private incentives are short-term oriented
- The report lays out concrete proposals to align public and private incentives with the long-term horizons necessary for sustainable development.

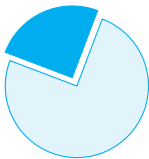
6 We must **harness the potential of innovation** to strengthen development finance

- Half a billion people gained access to financial services since 2014
- But innovations do not eliminate financial and sustainability risks
- The report calls for **a rethinking of the focus of regulation to highlight underlying risks, including from fintech, rather than by institutional type**

Integrated national financing frameworks—a tool to implement the Addis Agenda at the national level

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1 A majority of national development plans do not provide details on how they will be financed



79 out of **107** national plans are not costing

2 Integrated national financing frameworks help countries:

- Manage a **complex** financing landscape
- Align financing with **long-term priorities**
- Strengthen the **coherence** of financing policies across Addis action areas and overcome silos
- Translate priorities into **strategic action**

Over **1000** financing instruments and modalities are available

3 There are 4 main building blocks to operationalize financing frameworks:

- **Assessments and diagnostics** of needs, flows, risks and binding constraints
- **A financing strategy** that matches resources with needs
- **Mechanisms for monitoring, review and accountability** to facilitate informed policy making
- **Governance and coordination mechanisms** to provide political backing and ownership



4 Countries do not have to start from scratch

- All countries have financing policies in place—but these have developed over time, often in an ad hoc fashion
- **Integrated national financing frameworks** are a tool to identify and implement **targeted policies and reforms**



5 They focus policy makers' attention on **binding constraints** to mobilizing resources:

- No more than a few major reform efforts can be completed at any one time
- Financing frameworks facilitate **sequencing** of reform, by taking capacity constraints into account and by identifying bottlenecks through diagnostic tools



Domestic public resources

1 Median tax revenue is growing in most regions and categories of countries

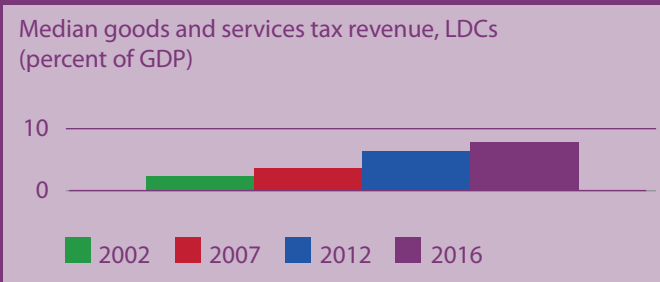
- 8 ■ Almost 80 developing countries increased their tax-to-GDP ratios from 2016 to 2017

2 Medium-term revenue strategies (MTRS) can help countries see tax reforms through political cycles

- MTRS can be bolstered by a new social contract between governments and taxpayers, based on a more equitable and inclusive society with fair contributions by all

3 Effective and progressive tax systems and expenditures can help governments achieve inequality goals

- Tax progressivity in OECD countries has been on a downward trend for **40 years**



- Fiscal redistribution from public revenue and expenditure is much more limited in developing countries

4 Environmental taxation can help transition the world to a cleaner, low-carbon economy



Carbon taxes could bring in revenue of almost 1.5% of GDP in developed countries and almost 3% of GDP in G20 developing countries

5 International tax rules are being re-written, but the architecture needs to be more inclusive

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0 = the number of LDCs receiving country-by-country information reports about multinational enterprise

6 Tackling illicit financial flows and the recovery and return of stolen assets necessitates strengthened international cooperation



\$60 – \$80 billion per region per year

Estimated value of goods trade mis-invoicing in Africa, Latin America and the Caribbean and West Asia



Domestic and international private business and finance

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1 Incorporating environmental and social risks into investment strategies should lead to greater financial performance in the long run, but

- Short-termism in capital markets impedes the incorporation of these risks
- Increased interest for these strategies has not led to enough changes in corporate behaviours



It is claimed that sustainable investing now accounts for 1 in 4 dollars of total US assets under professional management

90%

of studies find a non-negative relationship between environmental, social, and governmental factors and corporate financial performance.

- The impact on development remains unclear as we cannot yet measure it properly.



2 Governments should further strengthen the business environment by assessing bottlenecks to investment



314 Reforms
In 2017/18, 128 economies undertook a record 314 reforms

3 Foreign direct investment flows to developing countries increased in 2018, but remain unevenly distributed, largely by passing countries most in needs

4 Gaps persist in the financial sector despite improvements...

1.7
billion



adults unbanked, 56% of whom are women

\$5.2
trillion



is the estimated financing gap for micro, small, and medium-sized enterprises

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... development-oriented financial institutions, such as savings banks, as well as fintech can be helpful complements to commercial banks

5 Financial sector development, including capital markets, contributes to growth and poverty reduction, but it has its own limits

- Overly developed financial sector can lead, for instance, to funds allocated to speculative bubbles instead of productive assets
- High quality regulation can help broaden access to finance without jeopardizing stability

6 More work is needed to monitor and address the potential impact of market concentration on inequality



The average wage share has fallen from about 57 per cent of world gross product in 1990 to about 52 per cent in 2017

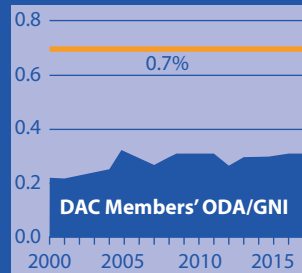


International development cooperation

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1 ODA providers must meet their commitments

- While close to all time-highs, ODA in 2017 amounted to only **0.31%** of donor GNI, with ODA to LDCs at 0.09%, far short of UN targets
- ¼ of bilateral ODA is dedicated to humanitarian and refugee spending



- While social sectors remain the largest ODA category, donors have increased the share of support for **infrastructure and production**

2 South-South cooperation continues to expand

- While difficult to quantify, South-South cooperation is becoming more institutionalized, opening the door for knowledge sharing and peer learning

3 Climate finance flows increased

- Public and private flows from developed to developing countries rose 17% between 2013-14 and 2015-16
- Yet access for vulnerable countries remains a concern

In **2016**, total climate finance flows reached **\$71 billion**

4 Development cooperation can reduce disaster risk and lessen disaster impact

- **61 million people** were affected by weather-related or seismic events in **2018**
- **Ex ante instruments for disaster risk reduction** strengthen resilience in developing countries
- **Emergency response and contingency funds** facilitate early intervention and save lives



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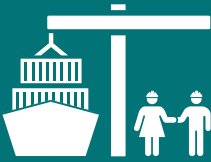
5 Blended finance is growing. To ensure development impact:

- Blended finance providers should **engage with host countries at the strategic level** to ensure project portfolios are aligned with **national priorities**
- **Blended finance principles** should be aligned with those in the **Addis Ababa Action Agenda**, such as country ownership

6 Development cooperation must be aligned with national priorities



National development cooperation policies, an integral part of integrated national financing frameworks, are an effective tool to align donor efforts with national goals



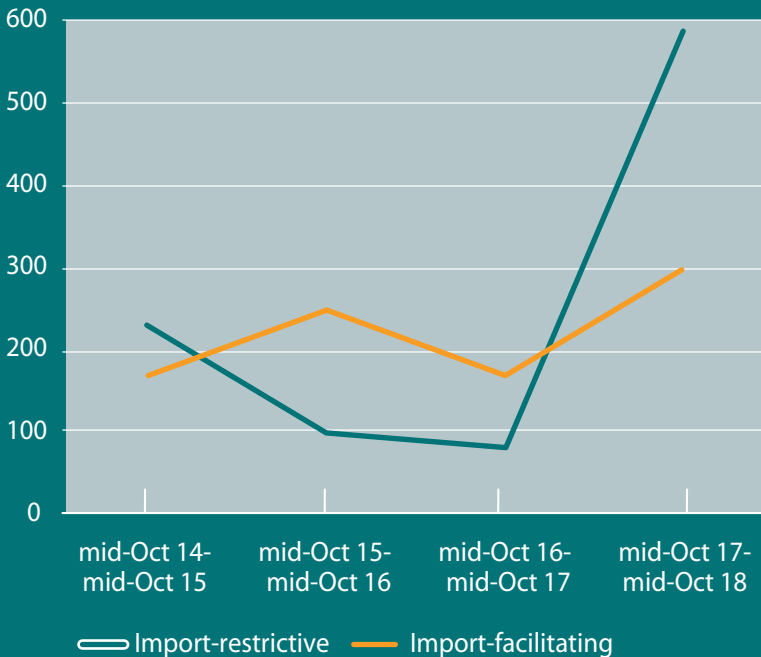
International trade as an engine for development

1 The multilateral trading system is facing serious challenges

- But this presents an opportunity to make it work better and adapted to new economic realities.
- Trade-restrictive measures amounts to US\$ 588.3 billion—more than seven times larger than that recorded a year ago.

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Trade coverage of import-restrictive and import-facilitating measures
(Billions of United States dollars)



2 WTO members should expeditiously implement the Ministerial Decisions on preferential rules of origin for least developed countries (LDCs) and on preferential treatment of LDC services exports

- The share of LDCs in world exports in 2017 remained less than 1%, which makes doubling the LDC share by 2020—one of the targets in the Addis Ababa Action Agenda and the SDGs—highly unlikely



3 Trade and investment agreements should leverage synergies between trade, investment and socio-economic and environmental policy



Since 2012, over 150 countries have undertaken at least one action in the pursuit of sustainable development-oriented investment treaty making

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4 Digital platforms and fintech can help strengthen trade financing for MSMEs

- The global trade finance gap is about \$1.5 trillion, particularly affecting small companies
- Technology has facilitated the transformation in trade financing away from paper-intensive products



5 Improving trade facilitation, including the efficiency in customs revenue collection, presents potential in reducing trade cost and increasing public revenue



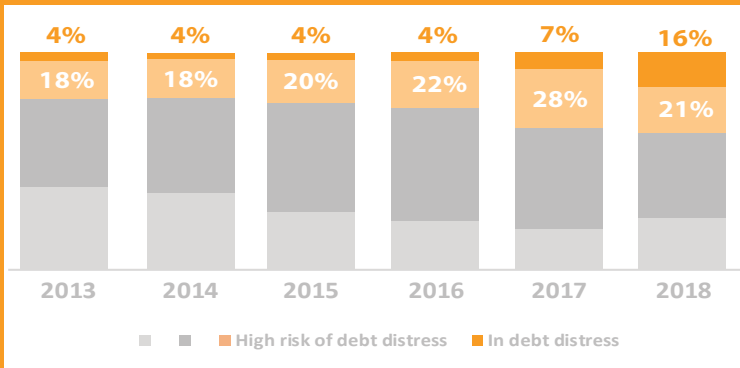
The average trade costs across countries in Asia and the Pacific, for instance, can be reduced by 26.2% through full implementation of digital trade facilitation



Debt and debt sustainability

1 Debt vulnerabilities are on the rise

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- **37%** of least developed and other low-income countries are at high risk of or already in debt distress
- Public debt of all developing countries rose from **36** to **51%** of GDP in the last **5** years
- Variable interest rate debt accounts for **1/3** of external debt of LDCs

2 Rising debt threatens developing countries' ability to invest in the SDGs



Rising debt service competes directly with SDG investments



Both creditors debtors should differentiate how debt financing is used, and prioritize borrowing for productive investments that can create fiscal space

3 Debt transparency and data need to improve



Debt transparency is improving only slowly. The international community is stepping up capacity building; creditors can make lending easy to track

4 Debt sustainability is a shared responsibility.

- The international community should work toward consensus on responsible lending and borrowing

5 Innovative debt instruments can be deployed to share risks between creditors and debtors

- Official creditors should consider state-contingent instruments – such as hurricane clauses – in their lending
- Debt swaps of vulnerable regions' external debt for investments should be piloted

Annual damage from disasters equals 2.4% of GDP in the Caribbean, and has risen to 200% in the worst case

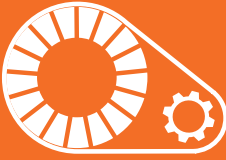
6 It is time to revisit existing mechanisms for sovereign debt workout



More complex debt instruments and the rise of non-traditional creditors has complicated debt resolution



Areas ripe for progress include strengthened creditor coordination, creditor/debtor dialogue, and standstills



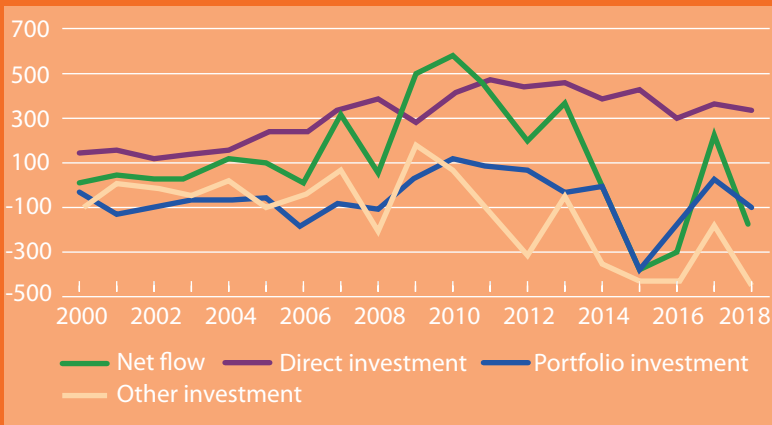
Addressing systemic issues

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1 Volatility of cross border capital flows to developing countries is high

- Aggregate net capital outflows of over \$200 billion are estimated for 2018

Net financial flows to countries in developing regions, 2000-2018



Less than 47% of international bank loans to borrowers in developing countries are for terms longer than 1 year

- Domestic policy choices in advanced economies affect the volatility of private capital flows to developing countries
- Incentivizing long-term investment in sustainable development can also contribute to reducing volatility

2 Agreed regulatory reforms, while important, are not enough to create stable and sustainable financial systems

- Regulations need to look at the underlying risks associated across all areas of financial activity...



30 per cent of global financial assets are managed by non-bank financial institutions with lower levels of regulation, far surpassing pre-2008-crisis levels



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- Financial regulation, which is designed to address financial stability, does not incorporate environmental, social and governance risks

3 Well-run national development banks (NDBs) can help countries develop financing options for SDG-related investments

- NDBs can bring international resources together with local market knowledge to enhance SDG-related finance



90% of NDBs target MSMEs
78% lend to large corporations

- Regulatory frameworks should protect NDB financial sustainability while maintaining their sustainable development mandate.

4 International economic and financial policies should be coherent with tax, investment frameworks, and competition policies

- Across these areas, more **work is needed to strengthen the voice of developing countries, as was committed in the Addis Agenda**



Science, technology, innovation and capacity building

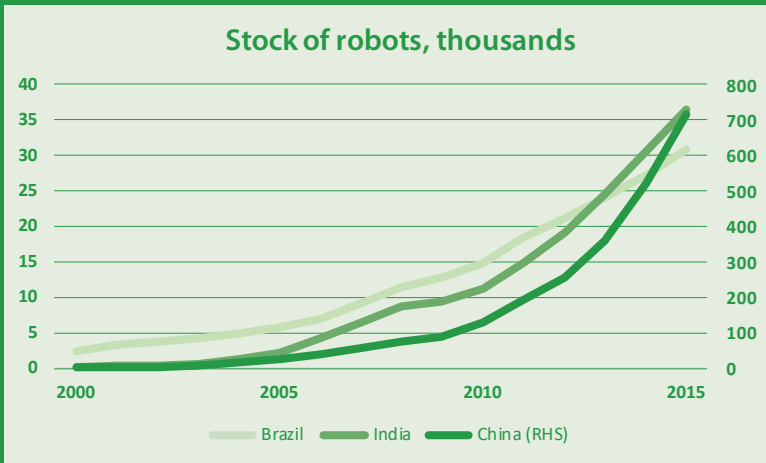
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1 New technologies contribute to SDG achievement

- New technologies (from big data and artificial intelligence to robotics) contribute to SDG achievement
- But access gaps persist within and between countries



2 Automation could have large impacts on jobs in developed and developing countries ...



... countries should take steps now to be prepared:

- encourage job-creating innovation
- revisit social protection mechanisms
- modernize and adapt education systems

3 Fintech has great potential to increase access to financial services

*More than **half a billion** people gained access to financial services since 2014*



*Digital lending in some cases brought down time-to-cash for SMEs from **3 months to less than 24 hours***

4 But fintech also raises new risks and challenges

- Fraud was high in some mobile money markets
- Crypto-assets have been fertile ground for financial crimes
- Disintermediation in the financial sector may endanger financial stability

5 Regulatory approaches need to address risks without stifling innovation

- Regulation needs to shift toward regulating specific activities rather than institutions
- Dialogue between regulators, new fintech and traditional financial services providers is key

6 Closing technology gaps will require international cooperation

International cooperation can help address constraints related to absorptive capacities, skills, and policy and legal frameworks



3 International cooperation is needed to strengthen developing countries' statistical offices and national statistical systems

ODA for statistics rose to \$623 million in 2016 but remains below required amounts



A doubling of funds will be needed to operationalize the six priority areas of the Cape Town Global Action Plan for Sustainable Development Data



An innovative funding mechanism, as called for at the 2018 United Nations World Data Forum, could draw on lessons from similar structures, such as in the area of global health

4 National strategies for the development of statistics provide an overall vision for strengthening national statistical systems

- This includes guidance for statistical capacity development and the integration of data from different sources
- To ensure alignment with national priorities, statistical strategies should be closely linked to national sustainable development strategies and incorporated into integrated financing frameworks

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