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FINANCING FOR DEVELOPMENT: PROGRESS AND PROSPECTS 2018

Report of the Inter-agency Task Force on Financing for Development

KEY MESSAGES AND RECOMMENDATIONS

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Contents

In 2017, most types of development financing flows increased, and there was progress across all the action areas of the Addis Ababa Action Agenda. These advances were underpinned by a broad-based upturn in the world economy, increased investment, and supportive financial market conditions. While not evenly distributed – per-capita growth remains negative or insignificant in many countries where poverty rates are high – the positive momentum is expected to continue and provide a platform for further progress in financing for development and SDG implementation.

Yet, the cyclical upturn masks significant weaknesses and medium-term risks. A disorderly tightening of financial conditions, the adoption of inward-looking policies and associated increases in interest rates and debt vulnerabilities or an escalation of geopolitical tensions could derail development progress. Persistently high levels of inequality pose a challenge to robust growth and sustainable development. Declining private investment in infrastructure, along with a renewed increase in global carbon emissions in 2017, is a stark reminder of our inability so far to sufficiently align investment with long-term sustainable development.

If left unaddressed, structural impediments will continue to undermine sustainable development prospects. The current cyclical upturn in the global economy provides an opportunity to focus policymaking on addressing long-standing concerns, and to accelerate the pace of progress toward the SDGs. The Addis Agenda offers a framework for individual actions and international cooperation towards this end. This 2018 report of the Inter-agency Task Force on Financing for Development assesses progress and gaps, and provides policy options across its seven action areas which, if implemented, would put the world on a sustained and more sustainable growth and development path. It also examines the financing challenges in the SDGs under in-depth review in 2018, to contribute to the assessment of progress in the means of implementation for goals on water and sanitation, affordable and clean energy, sustainable cities and communities, sustainable production and consumption, and terrestrial ecosystems.

Several overarching messages have emerged from the Task Force's analysis:

- **Integrated national sustainable development strategies and financing frameworks must inform policies, plans and project pipelines.** Integrated strategies provide a long-term vision that reaches beyond short-term political cycles and overcomes siloed thinking. Strategies should incorporate medium-term policies, plans and regulatory frameworks, as well as domestic and international financing flows and needs. They should incorporate parameters and incentives to better align the financial system and investment flows with sustainable development. This is critically evident for infrastructure plans and pipelines, where today's investment decisions will lock-in development paths until 2030 and beyond. National actions also need to be supported by a global enabling environment that can facilitate long-term and quality investments, in particular to developing countries.
- **Incentives of actors in public and private financial institutions need to be aligned with long-term sustainable development.** Without a long-term investment horizon, certain risks, such as those from climate change, will not be incorporated into decision-making. Incentive structures need to be reviewed across the financial system, and aligned with the SDGs.
- **Public, private and blended financing contribute to financing SDG investments.** Innovative instruments and approaches are rapidly changing the development finance landscape and create opportunities to

scale up the contributions of all sources of financing toward the SDGs. Private finance and investment, public and blended financing all remain indispensable. Project and country characteristics and national policy priorities will determine which financing model is best suited for specific investments, and which actors are best positioned to manage investment risks and provide services equitably and cost-effectively.

- **Public policies and actions are at the heart of the agenda.** While public, private and blended finance all play important roles in financing sustainable development, public leadership is indispensable to set rules, provide guidance, promote coherence, and overcome structural constraints that impede sustainable-development-oriented structural transformation.

Three cross-cutting issues are addressed throughout the chapters of this year's report:

- **New technologies have potential to support progress across the SDGs and the action areas of the Addis Agenda.** They open new possibilities to address long-standing development challenges across the SDGs, but their transformative power also raises complex challenges and risks, and puts adaptive pressure on economies and societies, including their labour markets. It is critical to make complementary investments, strengthen social protection and set regulatory frameworks so that benefits are shared broadly, and risks to privacy and data protection, financial stability and integrity are addressed.
- **Gender equality must be addressed at every point in policy making and programming.** Gender inequalities persist in access to finance, technology, public services, decent jobs, unpaid care and domestic work, participation in policy-making processes and many other areas. Such inequality threatens achievement of the 2030 Agenda, but also weakens inclusive growth prospects by denying women opportunities to fully participate in the economy. Gender equality needs to be mainstreamed in fiscal policies, business, access to finance and development cooperation, and all financing policies need to be monitored and assessed consistently for gender impacts. This also requires increased availability of sex-disaggregated data.
- **Focus needs to firmly remain on the poorest and most vulnerable, to ensure no one is left behind.** Financing and capacity gaps are greatest in countries with the least ability to close them – in particular least developed countries and small island developing States. Yet, international support is not sufficient to effectively help these countries meet the SDGs. International commitments for vulnerable countries need to be met, and their interests and concerns considered in international norm-setting and policy making.

The seven action areas of the Addis Agenda provide the building blocks for implementation of the 2030 Agenda and SDG achievement. The Task Force's recommendations in each of them are described in detail in subsequent chapters. Key overarching messages include:

- **Mobilizing additional domestic public finance and spending it more effectively remains critical.** Effective revenue collection and public service delivery can boost the link between citizen and state, and form the basis of the social contract. The implementation of medium-term revenue strategies can support improved domestic public resource mobilization. International cooperation needs to complement these efforts – by increasing financial support for fiscal capacity building, and by ensuring developing countries benefit fully from new international standards on tax transparency standards. New technologies can both increase efficiency in revenue collection and strengthen the fight against illicit financial flows. Improving the alignment of budgets with the SDGs, especially through greater transparency and disaggregation of fiscal data, will further efforts across the Agenda, such as supporting gender equality and implementing universal social protection systems.

- **Achieving the SDGs will require a shift in the financial sector toward long-term investment horizons and sustainability as a central concern of investment decisions.** The momentum around sustainable investment is growing. Yet, long-term investment in sustainable development, especially in countries most in need, remains insufficient. There are both supply and demand constraints to greater private investment. Countries need to strengthen enabling environments, thus reducing investment risks, and develop project pipelines and investable projects. At the same time, incentives along the investment chain need to be aligned with sustainable development to unlock SDG investments. However, short-term horizons in decision making remain a major obstacle. New technologies can help channel financing to all segments of the economy, including to women, in an inclusive manner. Effective regulation is necessary to monitor systemic or consumer risks that may arise from digitisation of finance.
- **Development cooperation remains central to supporting implementation of the agenda; international public finance is increasing, but critical funding gaps remain.** ODA providers should continue to increase aid, in particular to vulnerable countries, with a view to meeting commitments they have made. Multilateral development banks, development finance institutions and South-South cooperation providers are also scaling up their contributions to the 2030 Agenda. Innovative instruments and approaches, such as blended finance, are increasingly deployed to catalyse additional sources of finance to achieve the SDGs. As MDBs and other providers are scaling up the use of such modalities, they should ensure their activities are aligned with existing development effectiveness principles, and do not eschew challenging country contexts. Countries most in need and investment areas critical to leaving no one behind should not be neglected, even as development cooperation increasingly targets global challenges. The international community should lend greater support to efforts of countries to manage transitions and graduation, and should consider flexibilities that allow countries access to appropriate sources of financing, depending on country needs and vulnerabilities.
- **Trade policies are increasingly focusing on the impact of trade on sustainable development in all its dimensions, reinforcing its ability to serve as an engine for inclusive economic and sustainable growth and poverty reduction.** International trade growth picked up substantially in 2017. E-commerce may provide untapped potential for further enhancing inclusive trade growth in developing countries. An open dialogue is warranted on aligning new trade agreements with the SDGs, for example by including provisions on gender or labour. Trade finance plays a key role in helping developing countries participate in global trade; it can be enhanced by promoting greater standardization in rules, practices and relevant programmes.
- **Debt risks are increasing, raising the spectre of a renewed cycle of debt crises and economic disruption.** Countries face pressing demands for additional public investments in the SDGs at a time when constraints on further debt financing are likely to become more binding. Stronger consideration

could be given to the positive impact of investments in infrastructure and productive capacity on debt sustainability, particularly if risks are carefully and transparently managed. The latter requires better and broader data collection, and improvements in debt management capacities. To lessen the financial stress on countries affected by shocks, the international community should work toward realizing the potential of state-contingent debt instruments. The changing composition of debt in developing countries also calls for a reexamination of creditor coordination mechanisms.

- **To create fit-for-purpose international rules and institutions for sustainable development, greater focus is needed on prevention, risk reduction and crisis response to address financial and economic vulnerabilities and disasters.** Despite preventative measures, the world regularly experiences shocks that set back development progress. The international monetary and financial system should aim to reduce volatility and contain systemic risks while boosting investment, implying continued vigilance on financial regulation. Self-insurance is costly and often inadequate for developing countries to respond to the most severe shocks. Building incentives for risk reduction into financing instruments can boost investment in prevention, while the international community can increase the efficiency and speed of shocks response by shifting resources from ex-post response to ex-ante instruments, using both insurance-type mechanisms and pooled funds. Expanding the size of risk pools can increase efficiency, but may require the financial support of donors for those unable to pay.
- **More and disaggregated data will allow policy makers to make more informed decisions and help them better implement their policies and programmes, but this will require more capacity building support.** Significant efforts are required to strengthen national statistical capacities, including investment in integrated national systems for gender statistics and better financial sector data to assess financial vulnerabilities. Throughout the chapters there are calls for more data and greater transparency. These efforts should be coordinated and coherent so that transparency efforts are linked, interoperable, and more efficient in providing actionable information.

The IATF will continue to deepen its analysis on the harnessing of all financing flows, and integration of all policies and plans toward SDG achievement in 2019. Building on findings from this year's report, the 2019 report will seek to draw an integrated picture of the state of sustainable development financing from a country and a global perspective. The analysis will draw on ongoing efforts within the UN system and beyond, on development finance assessments and integrated national financing frameworks, on roadmaps for sustainable financial systems, and related analytical work. This holistic approach can support a first broader stocktaking of progress in implementation of the Addis Agenda for the 2019 ECOSOC FfD Forum and for the High-level Dialogue on Financing for Development of the General Assembly, which will be held in September 2019. In addition to reporting on progress in all action areas of the Addis Agenda, the thematic analysis of the Task Force will consider the 2019 HLFP theme (Empowering people and ensuring inclusiveness and equality) and the SDGs under in-depth review in 2019.

About this report

The 2018 report of the Inter-agency Task Force on Financing for Development begins its assessment of progress with an analysis of the global macroeconomic context (chapter I), which sets the economic framework for implementation efforts. The thematic chapter (chapter II) explores financing needs, capital structures and financing options in the SDGs under in-depth review at the 2018 United Nations High-level Political Forum on Sustainable Development, namely SDGs 6 (water and sanitation), 7 (affordable and clean energy), 11 (sustainable cities and communities), 12 (sustainable production and consumption patterns) and 15 (terrestrial ecosystems). The chapter builds on both the 2016 IATF report, which laid out this financing framework and highlighted the different roles and mandates of public and private finance, and the 2017 report, which addressed challenges in mobilizing long-term public and private quality investments for sustainable infrastructure.

The remainder of the report (chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda: domestic resource mobilization, private finance, international development cooperation, trade, debt, systemic issues and science, technology and capacity building, as well as data issues. Each chapter begins with a summary that highlights key messages and presents policy options. The necessarily concise assessments in the report are complemented by and should be read in conjunction with the comprehensive online annex of the Task Force report (http://developmentfinance.un.org). The annex provides data and analysis for each of the more than 100 clusters of commitments and actions across nine areas covered in the Financing for Development outcomes.

Chapters III.A. to III.G also address the eight new mandates that Member States gave the IATF in the intergovernmentally agreed conclusions and recommendations of the 2017 ECOSOC Forum.[1] They called for analysis on social protection and crisis financing; three separate areas of private finance; the catalysing impact of ODA; trade finance; sustainable financial systems; and the impact of new technologies on labour markets. The IATF carried out background research, held dedicated technical meetings, and engaged outside experts to inform this analysis.[2] The report further benefited from the work of the Intergovernmental Group of Experts on Financing for Development, which was created at the UNCTAD XIV Conference in Nairobi in 2016, and held its first session in November 2017 on the topics of domestic public resource mobilization and international development cooperation.[3]

Member States also invited international regulatory standard setting bodies to contribute to the work of the IATF. They join more than 50 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions such as the Organization for Economic Cooperation and Development and the Financial Stability Board. The report and its online annex draws on their combined expertise, analysis and data. The major institutional stakeholders of the financing for development process, the

[1] Report of the Economic and Social Council forum on financing for development follow-up, E/FFDF/2017/3, available from: http://www.un.org/ga/search/view_doc.asp?symbol=E/FFDF/2017/3
[2] For additional information on these workstreams and related technical meetings, please refer to the dedicated section on the online annex: https://developmentfinance.un.org/workstreams
[3] Report of the Intergovernmental Group of Experts on Financing for Development on its first session, TD/B/EFD/1/3, available from: http://unctad.org/meetings/en/SessionalDocuments/tdb_efd1d3_en.pdf

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 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 the report.

Chapter I. The Global Economic Context and its Implications for the Sustainable Development Goals[4]

After a prolonged period of slow growth, the world economy is experiencing a broad-based upturn. With the headwinds from the global financial crisis and other recent shocks gradually dissipating, economic activity around the world has strengthened considerably. For the first time since 2010, all major economies are expanding in unison, albeit at varying rates. While some downside risks remain, the positive momentum, overall, is expected to continue in 2018-19, with near-term risks to the outlook broadly balanced.

The global recovery is underpinned by increased investment, which accounted for about 60 per cent of the acceleration in global growth. However, this cyclical expansion masks significant underlying weaknesses. The increase in investment follows an extended period of weak investment and low productivity growth, which continues to limit the longer-term potential of the world economy. A disorderly tightening of financial conditions and changes to interest rates in systemically important economies could have spillover effects on exchange rate stability, capital flows and growth, particularly in developing countries. The adoption of inward-looking policies and an escalation of geopolitical tensions could also derail the global recovery.

The improvement in global growth has also not been evenly distributed across countries and regions. Per-capita growth remains negative or insignificant in many countries where poverty rates are high. Persistent weakness in wages not only contributes to within-country inequality, but also restrains the rebound in aggregate demand. Importantly, the recovery in global growth appears to have been associated with a renewed increase in global carbon emissions, highlighting the importance of ensuring the quality of investment and its alignment with sustainable development.

For policymakers worldwide, the synchronized upturn in growth provides an opportunity to address these and other structural problems that restrain progress towards the Sustainable Development Goals. Reorienting policy towards tackling them can support the cyclical upturn and generate a virtuous circle of inclusive and sustainable growth.

[4] This chapter is based on the following reports: United Nations (2018) *World Economic Situation and Prospects 2018;* IMF (2017) *World Economic Outlook October 2017*; IMF (2018) *World Economic Outlook Update January 2018*; UNCTAD (2017) *Trade and Development Report*; and World Bank (2018) *Global Economic Prospects.*

Chapter II. Financing investment in selected SDGs

The Addis Ababa Action Agenda calls for increased investment in sustainable and resilient infrastructure, including for energy, water and sanitation for all, as prerequisites for achieving the Sustainable Development Goals (SDGs). Closing the global infrastructure gap has become a major priority for the international community. Several new initiatives have been launched, including the Global Infrastructure Forum called for in the Addis Agenda, other infrastructure platforms and facilities, and new development banks and finance institutions. Yet, major challenges remain to scale up SDG investments in infrastructure and beyond. To support countries in this effort, this chapter examines the financing challenges in the SDGs under in-depth review at the 2018 United Nations High-level Political Forum on Sustainable Development, namely: SDGs 6 (water and sanitation), 7 (affordable and clean energy), 11 (sustainable cities and communities), 12 (sustainable production and consumption patterns) and 15 (terrestrial ecosystems).[5]

While the financing models for each of these SDGs draws on all seven chapters of the Addis Agenda, a key question underlying many of the international debates is what roles public, private and blended financing should play. The Addis Agenda stresses that all sources of financing are needed, and that they are complementary, with different objectives and characteristics making them more or less suitable in different contexts and sectors. The Addis Agenda also underlines the potential of blended finance instruments, while calling for careful consideration of their appropriate structure and use.

Because the sectors covered in this chapter in large part address public services and goods, national and sub-national public authorities are ultimately responsible for service delivery. Public policies and actions must thus be the driving force. An examination of the SDG sectors under review highlighted several policy priorities.[6] These include:

- **Enhancing institutional and regulatory frameworks**: Strong institutions and the rule of law are the starting point for effective economic governance. They need to be coupled with transparent, consistent and quality regulatory frameworks to guide private operators in each sector, manage natural monopolies, encourage innovation, limit red tape, and promote universal access to infrastructure services. Without this enabling environment, investment risks will remain particularly high, and neither public nor private financing or operation is likely to satisfy public need in a cost-efficient manner. A stable international macroeconomic environment is also required to support sustainable long-term investments in the targeted sectors (chapter III.F).
- **Developing infrastructure plans**: Plans should integrate financing frameworks and align with country development strategies.[7] They should provide a long-term vision (beyond the political cycle), include adequate stakeholder consultations, and incorporate climate impact and resilience as well as gender

[5] Sustainable consumption and production is treated as a cross-cutting issue throughout the different sections, where applicable.
[6] See also on this topic: World Investment Report 2014 Investing in the SDGs: An Action Plan accessible http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf
[7] According to the Global Infrastructure Hub's Infra Compass, only 25 countries out of a sample of 48 countries have a National or Sub-National Infrastructure Plan (data accessed on 13 February 2018)

assessments. They should also serve to coordinate across sectors, given synergies and interconnections (e.g. hydro-power plants impact energy, water and ecosystems).

- **Translating plans into quality project pipelines**: This calls for sufficient human and financial resources, adequately prepared projects, and effective procurement and frameworks for public-private partnerships (PPP) as applicable. In this context, governments can benefit from multilateral development bank platforms that support the development of replicable and scalable infrastructure projects, such as SOURCE and the Global Infrastructure Facility (GIF).[8]
- **Strengthening public finance**: Equity, social inclusion, and other public good considerations provide a rationale for public engagement through direct financing, subsidies, guarantees or other incentives, and/or regulation. However, in many countries, public balance sheets and fiscal space are constrained, and debt sustainability is a major concern. This underscores the need for boosting public financial resources, both domestically largely through improved taxation, and internationally through official development assistance (ODA). South-South cooperation and other official development finance can play complementary roles (Chapters III.A, III.C, and III.E).
- **Mobilizing the private sector**: The private sector may be involved in the ownership, operation and finance of projects, depending on country and sector priorities (with most deals focused on finance or operation, and not on privatization per se). While the private sector can bring cost-efficient solutions, it is also often associated with higher financing costs because most investors demand a competitive return for the risk they assume. To effectively contribute to many SDGs, private financing flows need to be stable and long-term oriented (chapter III.B).
- **Getting prices right**: Where socially feasible, price signals can address externalities ("polluter pays principle") and support sustainable consumption and production patterns, for example through carbon pricing or phasing out harmful subsidies, taking fully into account the specific needs and conditions of developing countries and minimizing possible adverse impacts on their development in a manner that protects the poor and the affected communities, as called for in the Addis Agenda.
- **Strengthening International Cooperation:** Developing countries need significant capacity building support to make progress in these areas and create institutions capable of delivering the ambitious SDG agenda (chapter III.C).

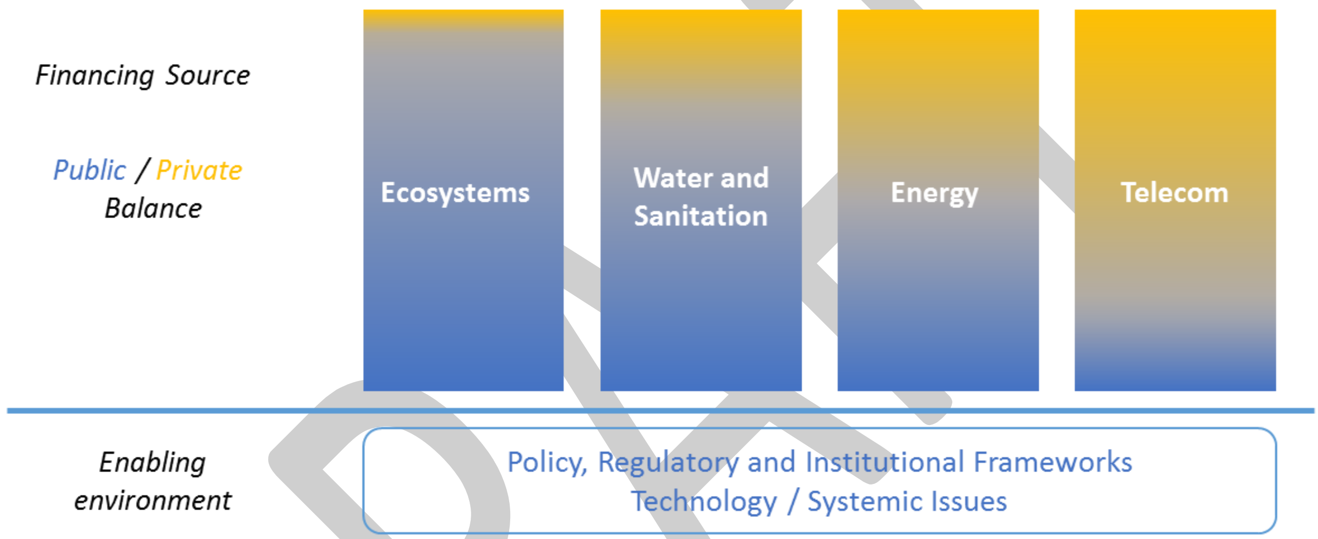
These policy priorities can guide stakeholders as they scale up SDG financing. Previous IATF reports have also highlighted several factors to consider in determining combinations of private and public ownership, operation and financing of projects, including: (i) whether investments can be sufficiently profitable to compensate private investors for the risks they bear; (ii) whether investments produce goods or services that can be effectively supplied by the market, or whether they have public-good properties (including positive or negative externalities)

[8] SOURCE is a joint initiative from MDBs to develop sustainable, bankable and investment-ready infrastructure projects (https://public.sif-source.org/) and GIF supports governments in bringing well-structured and bankable infrastructure projects to market (http://www.globalinfrafacility.org/)

that require public involvement; (iii) more specifically, whether public intervention is warranted for social equity reasons; and (iv) whether private investors can bring efficiency gains through the profit incentive.

For example, investments in ecosystems will largely be publicly financed due to the public good nature of the sector, though private initiatives sometimes play a role, often through philanthropy or impact investing[9] (chapter III.B). Private financing is most likely to be appropriate in sectors where projects can generate sufficient returns, such as in the energy sector, though with public oversight and often public support. The use of private finance is more challenging in areas where equity considerations and large financing gaps reduce profit prospects, such as water where various financing models have been utilized (see Figure 1, which provides a rough breakdown of the roles of public and private financing across sectors, each of which depends on an overall enabling environment).

Figure 1: Continuum of public and private finance



As noted above, the domestic and international enabling environments are critical factors for investment. When the perceived risk of project failure is high, the cost of private finance, in particular, is likely to be prohibitive. Financing strategies need to consider how to avoid locking in high financial costs that reflect domestic risks for the entire duration of infrastructure projects (often 20 years or more). This is particularly relevant for countries that are in the process of strengthening institutions and thus reducing risks. Development banks could assist countries in building such financing strategies. This also underscores the importance of public finance, either through direct financing or blending strategies (chapter III.C). However, blended strategies can also create contingent liabilities that need to be carefully managed (chapter III.E).

The scale of financing in these sectors requires mobilizing both domestic and international sources. International financing is often a critical complement to domestic resources, but might generate currency risks that are difficult to manage at a country level. This calls for examining whether global approaches allowing the diversification of currency risks could be developed, for instance by development banks.

To examine how public and private firms can contribute in the sectors under review, it is also important to better understand the sources of cash flows to maintain operations and cover financing costs. They can come from three

[9] i.e. private investors who seek to have a positive social or environmental impact alongside their profit.

main sources: users (tariffs), public authorities (taxes) and transfers from national to sub-national governments or from external partners (see ***Table 1****)*. These sources of cash-flow provide the basis to mobilize repayable finance, including concessional and non-concessional finance, necessary to realize the required investments in these sectors. Table 1 lists examples of these different financing sources across the SDG sectors under review.

These initial considerations provide a general framework for understanding the capital structure of some SDG investments. However, further analysis of sector specificities is necessary to better understand possible financing options and the practical reality of each sector.

Table 1: Examples of cash flow sources per sector

TYPE OF CASH FLOW	**EXAMPLES of CASH FLOWS IN HIGHLIGHTED SECTORS**			
	Sub-National Finance	**Water and Sanitation**	**Energy**	**Terrestrial ecosystem**
Tariffs / User Fees / User Investment	- Fees (e.g. for public transport / trash collection / parking)	- User investment (e.g. toilets or / boreholes) - Fees to water utilities	- User investment (e.g. clean cooking fuels / solar panels) - Fees to energy utilities/ energy service companies - Savings on energy bills (energy efficiency)	- Payment for ecosystems services - Green commodities - Biodiversity offsets
Taxes / Public Subsidies/ Domestic Transfers	- Local Taxes (e.g. property taxes) - Transfers from central governments	- Transfers from central governments - Targeted subsidies	- Public subsidies (e.g. Feed-in tariff premium) - Tax breaks for energy efficiency - Carbon credits	- Budget allocation - Agricultural subsidies with biodiversity goals
Grants (Donor Assistance / Philanthropy)	- External grants, (e.g. to public transport systems)	- Viability Gap Funding in water projects	- Technical Assistance for energy audits	- Grants channelled through NGOs - REDD +

Chapter III.A. Domestic public resources

Domestic public finance is essential to providing public goods and services, increasing equality, supporting macro-economic stability and achieving the Sustainable Development Goals (SDGs). Public finance encompasses raising revenue, budgeting its use, and expenditure on public programmes and investment. All parts of the process should aim to align with country priorities and the sustainable development agenda.

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

MTRS should be seen as part of overall public financial management, with the impact of taxation and revenue analysed in the context of the allocation of public expenditure. Effectiveness and efficiency in revenue collection and public service delivery can boost the link between citizen and state by enhancing accountability and strengthening the social contract.

Gender equality must be addressed in policy-making and programming to build governance systems that are responsive to all citizens. ***Member States should conduct comprehensive gender impact analysis of fiscal systems, not only of individual taxes, to ensure that revenue and expenditure are more gender responsive and promote gender equality.*** These require analytic capacity and sex-disaggregated socioeconomic and fiscal data. Regional and international tax cooperation bodies can support knowledge transfer and capacity strengthening of governments. ***Guidelines and methodologies for MTRS, tax policy assessment frameworks, and tax administration diagnostic tools should incorporate gender.***

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

Taxes on harmful and unhealthy products such as tobacco, alcohol and sugar-sweetened beverages have potential to raise revenues in addition to changing incentives and behaviour, thus improving the overall health of populations. ***There is therefore a double win for society to impose such taxes to achieve health and revenue objectives.***

The digitalization of business and finance has potential for improving tax revenue collection, but the pace of technology innovation could also outstrip the ability of Member States to monitor tax avoidance and evasion. ***Application of technology to tax administration, including tax enforcement, can make more information***

available and enable revenue authorities to widen the tax base, identify and mitigate compliance risks, more effectively identify and prosecute evaders, and ultimately provide deterrence and stimulate voluntary compliance.

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

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

Official development assistance (ODA) in support of domestic resource mobilisation remains small. As agreed in the Addis Agenda, ***donors should continue to increase their contributions to revenue mobilisation capacity building, and do so in line with the recommendations on enhancing the effectiveness of external support in building tax capacity in developing countries set out by the Task Force last year.***

Task Force members, for their part, will continue to strengthen collaboration including through the joint UN, World Bank, IMF, and OECD Platform for Collaboration on Tax. The role of regional tax organisations is also vital. Sharing experiences plays a key role in developing common positions and holds potential for regional cooperation on tax incentives and harmonisation of standards. Member States recognised this role last year in the 2017 ECOSOC FfD Forum, meanwhile regional tax organisations are strengthening their global network to enable broader sharing of experiences. ***Continued strengthen of existing regional tax organisations, and establishing them in regions without such organisations, will contribute to inclusive tax cooperation***.

The Task Force recognises the damage done by IFFs, and the interest of Member States in combatting this scourge. The Task Force will continue providing component-by-component and channel-by-channel estimates of the value of such flows. Many of the reforms being discussed through international tax cooperation will contribute to preventing IFFs. In addition to the role of technology in strengthening tax administration, ***technological advances can also assist Member States to combat IFFs through improved customs administrations, application of anti-money laundering rules, and operation of beneficial ownership registries and financial supervision.*** Whole-of-government approaches take on additional significance because combatting IFFs, such as goods trade mis-invoicing, requires cooperation amongst many different agencies and ministries.

Technological advances also pose risks related to IFFs. The potential for anonymity with the use of new technologies such as blockchain and digital currencies can heighten the risk of illicit finance. ***Member States can***

strengthen regulations on markets that are contributing to the illicit movement of resources. International cooperation on the return of stolen assets is mandated by the UN Convention Against Corruption. ***More investment can be made in the human and technical resources necessary to speed up assets return.***

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

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

Last year the Task Force provided a deeper analysis of financing of universal social protection systems. Building universal social protection systems has synergies with other social policies, as well as additional benefits, such as helping improve tax administration and delivering emergency assistance in response to shocks.

Finally, the Addis Agenda emphasises that national development banks (NDBs) can play a vital role in financing sustainable development. ***More in-depth study is warranted of how NDBs can adopt prudential risk management frameworks that align their activities with long-term investment and all three dimensions of sustainable development.***

Chapter III.B. Domestic and International Private Business and Finance

Private investment and business activity is integral to development and job creation. The Addis Ababa Action Agenda calls on businesses to apply their creativity and innovation to solving sustainable development challenges, and invites them to engage as partners in implementation of the sustainable development agenda.

Two years into the 2030 Agenda, the momentum around sustainable investment is growing,[10] and private companies are progressively recognizing that sustainability can foster long-term value. Indeed, the 2030 agenda creates enormous opportunities for commercial finance and investment. The Business and Sustainable Development Commission (BSDC) found that achieving the SDGs could unlock $12 trillion in market opportunities across just four sectors: food and agriculture; cities; energy and materials; and health and well-being.[11]

Yet, while investment picked up in 2017, long-term investment in sustainable development, especially in some developing countries (such as LDCs, LLDCs and SIDS), remains insufficient; and despite a global consensus on the need to increase investment in infrastructure in particular, private participation in infrastructure has fallen in each year since the Addis Ababa Action Agenda was adopted in 2015.[12]

Public policies set the enabling environment and the regulatory framework for private sector investment and activity. The Monterrey Consensus tasked Member States of the United Nations with building transparent, stable and predictable investment climates, and many countries have made great strides in this area, though gaps still remain. **Developing countries should continue to work to build competitive business environments, and develop project pipelines and investible projects, supported by international cooperation and capacity development, especially for vulnerable countries including LDCs, LLDCs and SIDS.**

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

Achieving the SDGs will require a shift to a long-term investment horizon, with sustainability as a central concern. **Governments can explore ways to incentivize institutional investors to take a long-term approach, including by reviewing regulatory frameworks.[13] The Task Force found that proper interpretation of fiduciary duty of institutional investors with long-term liabilities would include a focus on the long-term, and would incorporate all factors (including environmental, social and governance (ESG) indicators) that have a material impact on returns, as these will drive the long-term performance of investments.**

[10] For example, the Dutch SDG investing (SDGi) and the CEO of BlackRock's note on contributing to society. Available respectively from: https://www.sdgi-nl.org/ and https://www.blackrock.com/corporate/en-no/investor-relations/larry-fink-ceo-letter.
[11] Business Commission on Sustainable Development (2017). Ideas for a Long-Term and Sustainable Financial System. Available from: http://s3.amazonaws.com/aws-bsdc/BSDC_SustainableFinanceSystem.pdf.
[12] World Bank (2018). Private Participation in Infrastructure database. Available from: http://ppi.worldbank.org/.
[13] For example, see the EU's attempt to do this via a "High-Level Expert Group on Sustainable Finance". Available from: https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance_en#high-level-expert-group-on-sustainable-finance.

Asset owners can take the lead in aligning their incentives with long-term investment, such as by linking compensation to longer-term returns; and rating agencies, consultants and advisors can support investors by evaluating risks and returns over a long-term horizon. **The UN, in collaboration with other institutions, could serve as a platform for bringing together asset owners, managers and other stakeholders to exchange experiences and disseminate the benefits of SDG investing with the financial community and other stakeholders. The IATF can develop analytical work to support and contextualize these discussions into the broader SDG implementation and Addis Agenda follow-up.**

Incentivizing the private sector to adopt global standards on responsible business conduct can promote better alignment of social and private goals. **The Task Force also recognizes the need to improve definitions, standards, measurement, and disclosure of ESG impact, and of new instruments, such as Green Bonds. Given the proliferation of competing reporting guidelines for businesses, there is a need to introduce greater standardization in sustainability metrics, and to ensure that metrics are aligned to global standards so as not to duplicate efforts.**

Ultimately, to fully mainstream SDG investing, new products need to be developed. The financial sector excels at innovation when demand is there. This raises questions of the extent of demand of ESG investing and whether investment professionals necessarily know their clients' preferences. As there is no systematic review of investor preferences, **one simple solution would be for advisors, consultant, brokers and others financial professionals to ask investors and beneficiaries for their sustainability preferences, similar to other know-your-customer requirements.**[14]

The Task Force recognizes that even with long-term horizons, and incorporation of material long-term ESG drivers of value, markets may provide insufficient financing for sustainable development across countries and sectors. This is the case when the risk-adjusted returns are not competitive with other opportunities, for example due to high risks (or externalities that are not priced in to private investment decisions). (See Thematic Chapter.) Risk-sharing tools, such as blended finance can be used to attract greater private investment (see Chapter II.C).

In addition to greater efforts to reduce domestic risks, partnerships between foreign and domestic investors, along with multilateral, regional and domestic development banks and Development Finance Institutions (DFIs), who are knowledgeable about the local context can help address the difference in risk perceptions.

The achievement of the SDGs is also dependent on finance being channelled to LDCs and other vulnerable countries, such as LLDCs and SIDS, in an inclusive manner, as well as to micro and smaller enterprises, women and poor and under-served segments of society. **Governments can examine the use of blended finance and similar mechanisms to spur investment, including by broadening the range of financing instruments accessible to small and medium enterprises (SMEs); however more analysis is required to design financial instruments that respond to the unique situation of countries with special needs, such as LDCs.**

The digitalisation of finance offers new possibilities towards advancing inclusive finance and its alignment with the 2030 Agenda. Fintech should be included as an integral part of national development plans on the financial

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[14] For example, in the USA, FINRA's suitability rule includes asking about investment objectives, including "generating income, funding retirement, buying a home, preserving wealth or market speculation." Available from: http://www.finra.org/investors/suitability-what-investors-need-know.

system. At the same time, **effective regulation is necessary to monitor any systemic or consumer risks that may arise from digitalisation of finance.**

Collaboration between international institutions, regulators and fintech entrepreneurs could help to develop international norms for effective use of fintech. **The application of financial technology also has the potential to lower the cost of remittances. Innovative applications can help address the loss of correspondent banking and provide a boost to developing countries that receive significant remittances from overseas.**

Chapter III.C. International Development Cooperation

In response to the vast investment needs associated with the SDGs, international public finance has increased since 2015, and efforts continue to increase its quality and effectiveness. Development cooperation is increasingly focused on strengthening developing countries' capacities to mobilize additional public and private resources for sustainable development, in particular by exploring the catalytic role of ODA and other flows. The challenging geopolitical environment and increasing intensity and frequency of environmental crises is also contributing to a shift toward linking development cooperation more closely to addressing challenges such as climate change and mitigation of conflict. These priorities are aligned with the 2030 Agenda and the SDGs, but there is a risk that changing aid allocation patterns create funding gaps in countries most in need of support and in investment areas critical to leaving no one behind.

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

Multilateral development banks (MDBs) and development finance institutions have continued to step up efforts to provide financial support, technical assistance, and policy advice in support of the 2030 Agenda. They have an indispensable role to play in financing the SDGs, including infrastructure in particular, and in ensuring that social and environmental sustainability considerations are embedded in investments that will lock-in development paths until 2030 and beyond. ***To this end, the MDBs should continue to strengthen their collaboration, including in their diagnostic work, support for project preparation and technical assistance, and to strengthen and country capacities.***

Bilateral and multilateral South-South development cooperation is expanding in scope and magnitude, including through intra- and inter-regional collaboration. ***Raising the visibility of South-South cooperation, and further documenting its added value and impact on sustainable development, would support SDG implementation.***

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

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

As many developing countries have recently graduated or will graduate from concessional financing windows thanks to strong per capita income growth, they are at risk of losing access to sufficient and affordable long-term financing for SDG investments. Many of these are small and climate vulnerable countries. ***To address these concerns, additional support should be provided to countries to manage the transition to new sources of financing as part of their integrated national financing frameworks. A wider use of existing exceptions to eligibility based mainly on per capita income, such as IDA's small state exception, should be explored.*** Exceptions have also recently been introduced to make non-concessional financing available to low-income countries for projects with potential for strong returns through the IDA18 Scale-Up Facility. ***Building on this experience, development banks should consider introducing additional flexibilities to access appropriate sources of financing depending on project characteristics.***

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

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

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

Chapter III.D: International Trade as an Engine for Development

The Addis Ababa Action Agenda acknowledges that international trade is an engine for inclusive economic growth and poverty reduction. At the same time, if the right mix of policies is not implemented trade may leave some individuals and communities behind. Political leaders have therefore called for policies that ensure the gains from trade are shared more widely.[15] Having in place overall economic policies and systems that promote job growth, decent work, social mobility, and social protection can set a conducive framework within which specific policies of trade adjustment can be more successful. Well-designed and gender-responsive policies tailored to country circumstances – such as job search assistance, training programs, and lifelong education – can augment worker skills and facilitate employment. Complementary policies in areas across the 2030 Agenda such as housing, financial inclusion, and infrastructure also play a role in easing adjustment. **Collectively, WTO Members can show leadership by reiterating their commitment to open, fair and mutually beneficial trade as a key driver of economic growth and a major engine for prosperity.**

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

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

Global consumers and businesses are paying greater attention to the impact of trade upon social and environmental sustainability.[16] This is reflected in promotion of provisions addressing labour conditions, empowerment of women and/or environmental sustainability in bilateral and regional free trade agreements (FTAs). At the same time, these measures should not inadvertently act as non-tariff barriers to exports from developing countries. **Open dialogue is warranted on aligning new trade agreements with the SDGs, including through inclusion of gender equality and core labour standards.**

Trade finance plays a key role in enabling global trade flows, creating economic value and driving inclusion by helping developing countries participate in global trade. Easing constraints on the supply of trade finance and supply chain finance, including credit and risk mitigation in regions where trade potential is the greatest, could

[15] G20 (2016). G20 Leaders' Communique Hangzhou Summit.
[16] UNCTAD (2016). Trade and Environment Review 2016. Available from: http://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1662

help MSMEs grow, and support the development of the poorest countries. **Export credit agencies and multilateral development banks could explore further developing trade and supply chain finance programs. Trade finance can be enhanced by promoting standardization of trade finance instruments and consistent implementation of anti-money laundering (AML), countering the financing of terrorism (CFT) and know your client (KYC) regulations across jurisdictions.**

Chapter III.E. Debt and Debt Sustainability

At a time when governments are faced with large financing needs to implement the 2030 Agenda, and as global financial conditions are set to tighten, many countries are constrained from raising resources due to their high debt burdens. Risks are growing of a renewed cycle of debt crises and economic disruption, posing a significant challenge to the achievement of the Sustainable Development Goals (SDGs). Despite a more favorable global economic outlook, emerging debt challenges in developing countries have intensified since last year's report. Debt service indicators among developing countries have deteriorated in a widespread manner, and vulnerabilities have increased across developing countries, in particular in several countries that previously benefitted from debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) initiatives. Many natural resource producing countries have seen rapid debt accumulation as governments have attempted to cushion the shock from falling commodity prices. Strains are also evident in several countries experiencing conflicts or political unrest, and in some small island developing states (SIDS), which remain vulnerable to natural disasters.

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

The 2017 Atlantic hurricane season underlined not only the vulnerability of SIDS to natural catastrophes, but also that innovative instruments, such as state-contingent debt instruments that reduce or delay debt servicing payments in times of crisis, could lessen financial stresses. The IMF has recently investigated several proposals for such instruments. ***The international community could consider actions to help realize the potential of this market, including through developing model contracts and common standards, providing technical support, and more ambitiously, by increasing the use of such instruments in official lending.*** An additional proposal from the Economic Commission for Latin America and the Caribbean (ECLAC) is being investigated by a task force of regional institutions that would swap discounted external debt of Caribbean countries for climate adaptation investments. ***Additional detailed analysis of this proposal is warranted with a view to pilot implementation in a limited number of countries on a trial basis. Additional tools could also be explored to ensure that developing countries affected by disasters are not left to deal with growing debt burdens in the longer run.***

Changes in emerging and developing countries' debt compositions may render future insolvencies more complicated to address, with nontraditional development partners gaining increased prominence. There are also growing obligations to new plurilateral[17] development finance institutions, though there is not yet a global understanding of whether those debts will enjoy the same seniority of payment as debt of traditional multilateral and regional development lenders. The Paris Club provides a forum for official creditor coordination, but does not currently include all countries. ***There is thus a need to re-examine official creditor cooperation mechanisms to address these issues.*** While improved bond contracts, including those that benefit from enhanced collective action clauses, should make borrowers less subject to litigation from distressed debt funds (so-called "vulture funds"), only 27 per cent of outstanding emerging market bonds have these enhanced clauses. ***The international community should continue to consider ways to strengthen the treatment of the main components of sovereign debt in workouts. In this context, the international community should continue to strengthen the market-based approach through expanded use of enhanced clauses in debt contracts. It should also explore complementarities and incongruities of existing initiatives to specify principles and guidelines for debtor and creditor responsibilities in borrowing by and lending to sovereigns, in line with the commitment in the Addis Agenda to work towards a global consensus.***

[17] The term plurilateral creditor refers to official lenders with more than one shareholder that extend non-commercial credit to other sovereigns and which do not have universal/open memberships, unlike established multilaterals such as the African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank and World Bank.

Chapter III.F. Addressing systemic issues

The Addis Ababa Action Agenda emphasises the importance of the coherence and consistency of the international financial and monetary and trading systems in support of development. To achieve the SDGs, Member States need not only increased financing, but also fit-for-purpose national and international institutions that facilitate economic stability and sustainable development.

The 2008 world financial and economic crisis highlighted regulatory gaps and misaligned incentives in the international financial system. Reforms to financial system oversight proposed in the aftermath of the crisis have aimed to address these concerns. The Financial Stability Board (FSB) and the financial regulatory standard-setting bodies monitor implementation of post-crisis regulatory reforms, as well as the impact of reforms on financial intermediation, including for SMEs and long-term financing. ***Member States should implement agreed financial regulatory reforms while being watchful of unintended consequences as well as new regulatory gaps that may result from financial innovation.***

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

At the same time, the world is also increasingly challenged by disasters that cause humanitarian emergencies and reverse development progress. A number of initiatives taken over the past decade increased the availability of quick-disbursing international financial resources for use during economic and financial crises and after disasters. To facilitate a stocktaking of these efforts, the 2017 ECOSOC Forum on FfD Follow-up invited the Task Force to prepare an inventory of existing quick-disbursing instruments that can assist countries, which is included as an annex to this chapter.

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

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

The United Nations is also working to make itself fit-for-purpose for the 2030 Agenda. The UN Secretary General has proposed UN-system-wide reforms to enhance the UN's institutional coherence with sustainable development, including to achieve gender parity at all levels. A central component of these is a restructuring of the UN Development System (UNDS), including proposals for revamping the Resident Coordinator system and introducing a Funding Compact. ***Adoption of UNDS reforms can help promote institutional coherence, increase the system's capacities, and enhance its partnership approach at country-level to help realize the ambition of the sustainable development agenda.***

Chapter III.G. Science, technology, innovation and capacity building

Science, technology and innovation (STI) are key means of implementation of the Sustainable Development Goals (SDGs). Expectations about the contribution of STI have increased in recent years as fast-evolving technologies are rapidly changing the development landscape. They open new possibilities to address long-standing development challenges across the SDGs – from poverty and hunger, access to healthcare and education, to low-carbon energy, combatting climate change and financial inclusion. They are also changing the development finance landscape, creating opportunities across the action areas of the Addis Agenda.

Advances in information and communication technologies (ICTs) are at the heart of this technological change. They have vastly increased digital interconnectedness, digital data storage and analytics capabilities at declining cost. Artificial intelligence in particular, which allows machines and computers to learn to solve problems on their own, could have transformative effects across many sectors of the economy – making it essential that innovations are in the public interest and guided by the 2030 Agenda and the Addis Agenda.

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

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

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

Harnessing technological dividends and sharing them equitably are critical challenges for policy makers. National innovation strategies need to be broad, and coordinated with industrial, macroeconomic, education, social and STI policies, which should support their inclusiveness. To help developing countries absorb, develop, integrate and scale up the deployment of key technologies and innovations for the SDGs, ***international collaboration and support for science, technology and innovation remains critical and needs to be scaled up, particularly for the poorest and most vulnerable countries.***

Chapter IV. Data, monitoring and follow-up

The range and depth of data demands to fully implement the monitoring frameworks for the SDGs and financing for development outcomes are unprecedented. The framework requires data disaggregated by income, sex, age, race, ethnicity, migration status, disability, geographic location, and other nationally relevant characteristics to cover all population groups and leave no one uncounted. Monitoring the implementation of the Addis Ababa Action Agenda requires data that are not included in the SDG indicators process, with focus on policies and financial flows. The Task Force, despite its limited resources, seeks to pull together the relevant data that exist; however there is no central process for trying to bridge the data gaps that have been identified by the Task Force in its 2017 report.[18]

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

Challenges in data collection are particularly steep for gender-related data field. Despite an increase in data availability to monitor progress towards gender equality, additional efforts are needed to fill the gaps. ***To overcome these challenges, Member States could incorporate plans for developing integrated national systems for gender statistics into their broader strategies.*** The Task Force has previously recommended that Member State policies be not just "gender-sensitive" but actively seek to advance the goal of gender equality, but this will not be possible if policymakers do not make use of gender-disaggregated information. ***Member States should strengthen efforts to produce sex- disaggregated data, but they also should popularise the use of gender statistics to improve policy design and implementation.***

Further progress is also needed on data on the financial sector and on financial vulnerabilities. Substantial progress was made by the participating economies during the first year of the second phase of the Data Gaps Initiative despite some key challenges in the implementation of some recommendations. Key challenges include compilation of government finance statistics beyond central government; sectoral accounts, including details on shadow banking activities; and sharing of granular data. ***Overcoming these challenges is essential to provide data to policymakers to monitor financial sector risks, analyse fiscal conditions, and understand cross-border financial interconnectedness.***

Finally, this report highlights transparency and accountability as a critical issue across chapters. Efforts at transparency, be they related to tax matters, debt levels, or trade and customs data, will be more successful if the basis for information sharing is more consistent. This chapter highlights efforts to improve the use of the legal entity identifier in financial sector data; ***public entities that issue securities could lead by example and obtain an LEI for themselves.*** Chapter II.A discussed the preparation of registries on beneficial ownership.

[18] United Nations (2017), *Financing for Development: Progress and Prospects*, page 121.

Transparency efforts could be linked and made more interoperable, so that policymakers can have better data and make more effective decisions that move the world closer to achieving the SDGs.