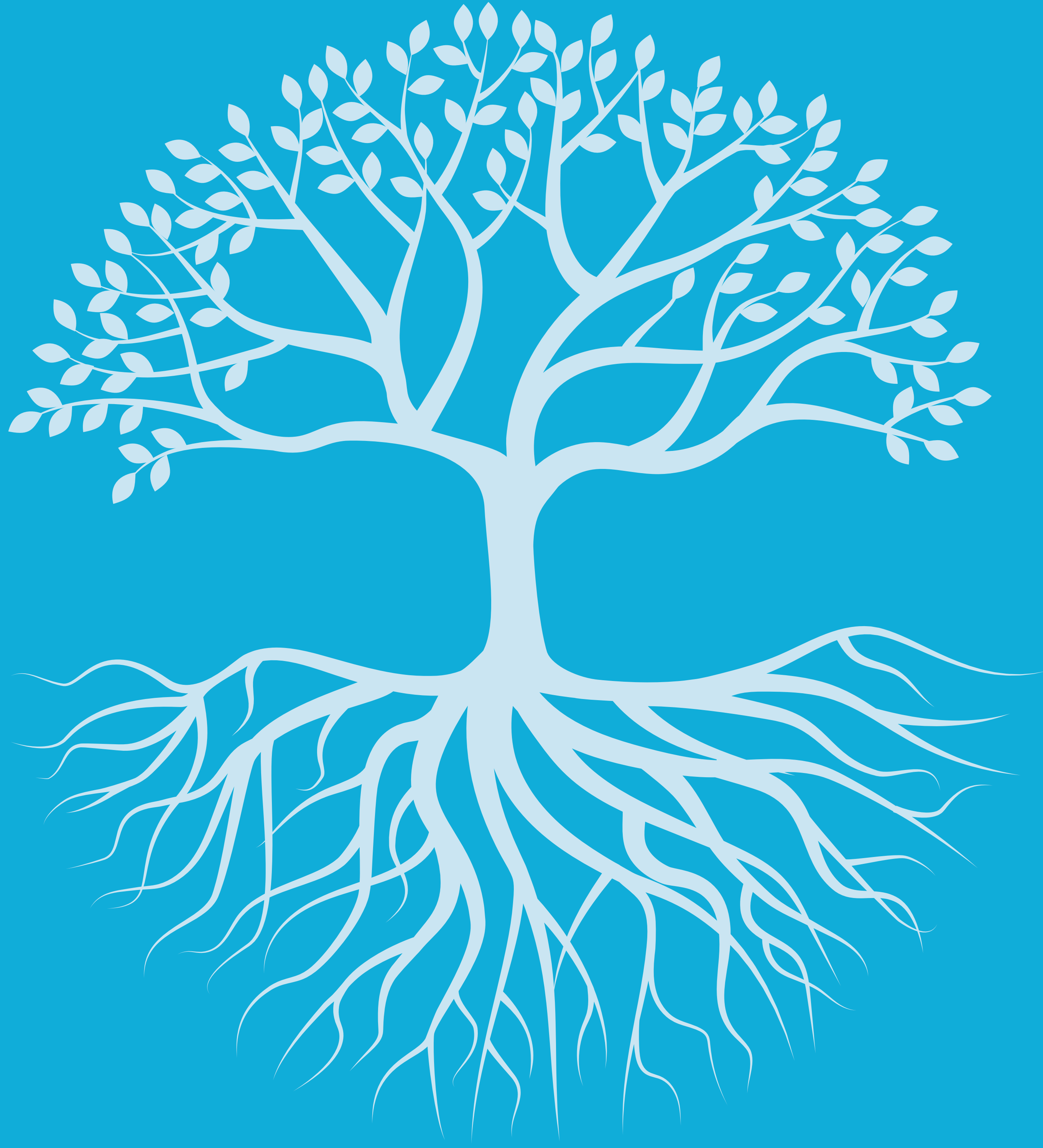


OVERVIEW AND KEY MESSAGES

Overview and key messages

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

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

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

Global aspirations at risk

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

Nonetheless, many of the risks highlighted in last year's Task Force report have begun to materialize or intensify, putting progress at risk, and raising the urgency of action.

- World economic growth remains steady at around 3 per cent, but has likely peaked.
- More than half a trillion dollars' worth of goods are subject to trade restrictions, 7 times more than a year ago.
- Debt risks are rising. Around 30 least developed and other vulnerable countries are either in or at high risk of debt distress—hampering their ability to invest in the SDGs.
- Several countries have experienced significant capital outflows, with aggregate net outflows of over $200 billion from developing countries expected in 2018.
- Inequality has risen in countries home to most people in the world, and global growth in real wages is only 1.8 per cent, the lowest since 2008.
- Climate change continues apace, with greenhouse gas emissions increasing by 1.3 per cent in 2017, with dire consequences for communities worldwide.

Achieving sustainable development requires: multilateral action to address global challenges; revisiting the global institutional architecture; and strengthened regional and national action, including adjusting policies to the changing global landscape. It includes countering short-term behaviour on all levels and harnessing the potential of innovation while managing risks.

Recommit to multilateral action. . .

Multilateral action is needed to address global risks and achieve the 2030 Agenda, including combatting climate change. ***Governments should recommit to the Addis Ababa Action Agenda, which provides a global framework for financing sustainable development, and strengthen collective action to address global challenges to sustainable development.***

. . . and revisit the global institutional architecture

Globalization and technological change contributed to reducing extreme poverty at the global level,

but uneven distribution of the benefits has left many behind and undermined support for the global architecture. The multilateral system is under stress. And yet, in this difficulty may lie opportunity.

For example:

- the crisis of the ***multilateral trading system*** opens the door to revamp and make it fit for purpose for sustainable development;
- challenges in ***sovereign debt*** restructuring, in part due to new instruments and non-traditional creditors, have sensitized the international community to gaps in the existing architecture;
- increasing vulnerabilities have underscored the importance of ***strengthening the global financial safety net;***
- the digitalisation of the economy has fuelled the debate about the design of the ***international tax system*** that could help address inequities***;***
- ***growing market concentration*** has underscored the need to better monitor this trend and manage its socio-economic implications.

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

Adopt integrated national financing frameworks and adjust policies to new realities

The Addis Agenda notes that "cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts." In response to the 2030 Agenda, many countries have injected new life into their sustainable development strategies. However, most strategies do not have concrete financing plans to fund their implementation.

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

Financing policies do not work in isolation. Integrated financing frameworks should not only respond to financing challenges, but also to the realities of a changing global landscape. For example, to combat inequality, including gender inequalities, national policies will need to address the falling wage share, growing vulnerabilities, digitalization and increasing market concentration, amongst other issues. ***Governments should revisit their labour market policies, social protection systems, fiscal policies, competition policies, financial sector regulations and strategies, and trade policies to ensure that these are in line with the new realities.***

Counter short-term behaviour

Achieving sustainable development—particularly eradicating poverty, reducing inequality, and combatting climate change—requires a long-term perspective, with governments, the private sector, and civil society working together to tackle global challenges.

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

Actions are needed at all levels. Strengthened collective action can help reduce global uncertainty. Nationally, integrated financing frameworks provide a basis for long-term policymaking beyond political cycles. For private investors and businesses, ***achieving the SDGs will require a shift towards long-term investment horizons and sustainability as a central concern of investment decisions. This demands aligning private and public incentives with sustainable development, and better measuring the impacts on sustainability.***

Harness the potential of innovation while managing risks

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

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

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

About this 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 though 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. Each chapter begins with a summary that highlights key messages and presents policy options.[1] Each chapter gives updates on implementation, and lays out challenges and policy options on both the national level, including links to integrated financing frameworks, and for international cooperation.

In ***chapter III.A on domestic public resources,*** main issues include: raising resources and using fiscal systems to combat inequality; aligning fiscal systems with environmental goals; and strengthening international tax cooperation and fighting illicit financial flows. In ***chapter III.B on private business and finance,*** main issues include: leveraging the growing interest in sustainable investing to maximize sustainability impacts; financial sector strategies to develop inclusive and sustainable financial systems, as well as capital market development; and links between financial markets, business concentration and inequality. In ***chapter III.C on international development cooperation,*** main issues include: a deep dive into ODA, along with other forms of development cooperation; international public finance for climate change and strengthening resilience; and development cooperation strategies as an integral part of national financing frameworks. In ***chapter III.D on international trade as an engine for development,*** main issues include: reforms of the multilateral trading system; trade policies consistent with the SDGs, including investment treaties; adjustment for the future of work; as well as e-commerce and trade financing gaps. In ***chapter III.E on debt and debt sustainability,*** main issues include: rising risks of debt distress; financing the SDGs in the context of rising debt burdens, including through the use of innovative instruments; transparency and debt management; and challenges to creditor coordination in a changing landscape of debt financing. In ***chapter III.F on addressing systemic issues,*** main issues include: global systemic risks, including capital flow volatility; financial regulations and sustainable development investment, as well as correspondent banking; and risk management for national development banks. In ***chapter III.G, on science, technology and innovation,*** main issues include: the impact of technology on labour markets; fintech and financial inclusion; and access to technology. Finally, in ***chapter IV on data and monitoring***, main issues include: development cooperation in support of statistical systems and the role of big data for the 2030 Agenda.

Chapters III.A to III.G and IV address the eleven requests Member States made to the Task Force in the intergovernmentally agreed conclusions and recommendations of the 2018 ECOSOC Forum on Financing for Development.[2] Table 1 lists the issues and where the related content can be found in this report.

Member States designated five SDGs to be reviewed

Table 1
Requests made by Member States and coverage in this report

Subject	Coverage
Relationship between ESG investing and returns	Chapter III.B section 2
Breakdown of the use of ODA in developing countries	Chapter III.C section 2
Climate and disaster risk resilience in development financing	Chapter III.C section 6
Trade financing gaps	Chapter III.D section 5.1
State-contingent debt instruments and other innovative borrowing instruments	Chapter III.E section 4
Correspondent banking and unintended consequences of regulation	Chapter III.F sections 3 and 5
Development bank risk management	Chapter III.F section 4
Impact of technologies on labour markets	Chapter III.G section 3
Implications of financial technolgy and the weightless economy	Chapter III.G section 4
Access to appropriate technologies	Chapter III.G section 5
Role of big data for the 2030 Agenda for Sustainable Development	Chapter IV section 2

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). These are addressed throughout the report. To guide readers interested in a consolidated picture of the financing issues related to these SDGs, the Task Force also brought together pointers to the relevant content in the boxes following this introduction.

This Task Force is made up of 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. 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 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 the report.

The Task Force carried out background research, held dedicated technical meetings, and engaged outside experts to inform this analysis.[3] The report further benefited from the work of the Intergovernmental Group of Experts on Financing for Development, which held its second session in Geneva from 7 to 9 November 2018, on the topics of debt and debt sustainability and interrelated systemic issues.[4]

SDG 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

Achieving SDG 4 on quality education for all requires significant additional financing. Annual total spending to achieve the first two—and costliest—education targets, namely universal pre-primary, primary and secondary education, would need to more than triple in low-income countries.[5]

Three sources of funding are available to fill the gap: Governments, donors and households. Domestic public finance is by far the most important source of funding, accounting for 79 per cent of education spending globally. Poorer countries prioritize education more in their public expenditure, but this still translates into vastly smaller expenditure by student—less than $200 annually per primary school student in low-income countries, compared to around $8,000 in high-income countries.[6]

In response, households have to contribute a much larger share of education financing directly. In some developing countries, households account for more than half of all expenditure, compared to less than 15 per cent in most developed countries. Overreliance on households raises equity concerns. **Chapter III.A** presents the case of Chile, which is gradually expanding free access to tertiary education, with a view to increasing inclusion. To this end, it undertook a broad reform of its tax system in 2014, with the explicit objective of permanently increasing public spending on education and other social sectors (box 2).

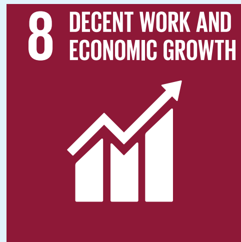
In developing countries, fiscal and household spending is complemented by aid as a third major source of education funding. Donors account for 12 per cent of education spending in low-income countries. However, over the past decade, education has become less of a priority for development partners, with the share of education falling from 8.8 per cent of total official development assistance in 2010 to 7.1 per cent in 2017. **Chapter III.C** describes one response to this trend—that is, the use of partnerships and innovative funding mechanisms, such as the Global Partnership for Education and Education Cannot Wait, to support education in crisis settings, and the recently proposed International Finance Facility for Education (box 1).

A share of aid for education is used for the provision of scholarships.—Means of implementation target 4.b calls for a substantial expansion of scholarships available to developing countries. More than $3 billion were disbursed as aid for either scholarships or as costs incurred by donor-country higher education institutions. **Chapter III.F** notes that scholarships and migration for education purposes are included in the Global Compact for Migration (box 3).

Chapter III.G (section 3) finds that new and emerging technologies are putting additional demands on education systems, as even advanced education is no longer a guarantee for employment due to the automation of cognitive tasks. Continuous and rapid technological change will require provision of opportunities for lifelong learning, but implications of artificial intelligence and related technologies for education systems and practices are only just coming into focus and warrant attention by policymakers (box 1).

Chapter IV reports on capacity development efforts to improve national education data, as availability of reliable and disaggregated data remains a challenge in the education sector (box 1).

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all



SDG 8 promotes sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all. It includes higher levels of productivity and technological innovation, encouraging entrepreneurship and decent job creation, access to financial services and protecting labour rights. These issues, which cut across the action areas, are at the heart of the Addis Ababa Action Agenda.

The global context chapter (**chapter I**) provides data on growth and employment. It highlights the lack of sufficient growth in least developed countries, as well as continuing challenges in generating sufficient employment. The chapter notes that hundreds of millions of workers are living in poverty despite being employed, and that youth employment remains a challenge. Gender disparities in workforce participation and pay are stubbornly wide.

The global context chapter also points to a decline in the labour share of income (and a corresponding increase in the profit share) over the last several decades, as a structural factor linked to growing inequality in some countries. Wage growth has lagged labour productivity growth, while the profit share has been rising. Insufficient welfare gains for the broader population risk lowering demand and economic growth.

Informality of businesses undermines the enforcement of labour rights and safe working conditions. **Chapter III.A** on domestic public resources examines the role fiscal policy can play in addressing labour market challenges, including in the informal economy. Policymakers can use fiscal systems to incentivize the formalization and growth of micro, small and medium-sized enterprises (section 3).

Policymakers can also create an enabling business environment that encourages entrepreneurship and a vibrant business sector, as discussed in **chapter III.B** (sections 3 and 4). Access to financial services is a key component of this enabling environment. While financial inclusion has improved in recent years, significant gaps remain between developed and developing countries (section 6). Policymakers can encourage a range of tools to strengthen financial inclusion. Financial technology (fintech) has successfully fostered financial inclusion in a number of countries, but has also led to new risks and challenges (**chapter III.G**, section 4). The regulatory framework for financial institutions, covered in **chapter III.F**, will need to shift from looking at the type of financial institution providing financial services to the underlying risks associated with the financial activity, with international regulatory standards also needing to adapt to the new landscape (section 3). Financial sector strategies should holistically address financial inclusion, deepening and stability, along with consumer protection.

There is significant uncertainty about the long-term impact of technology and innovation on jobs and decent work. **Chapter III.G** focuses on the impacts of technologies on labour markets and employment (section 3), addressing the fear that rapid advances in artificial intelligence could make the labour of millions of people redundant. Automation has led to a high concentration of profits among a few companies and locations, contributing to growing income inequality and job polarization. Governments can encourage innovation that creates new jobs and ensures that social protection systems adapt, while investing in lifelong learning that enables upskilling and re-skilling.

Member States of the United Nations have prescribed Aid for Trade as a means of implementation for SDG 8 (target 8.a). Aid for Trade aims to help developing countries, and in particular least developed countries, build the supply-side capacity and trade-related infrastructure they need to implement and benefit from multilateral trade agreements. **Chapter III.D** describes the progress (section 5.4), which has been steady since 2006, although the most recent year's data showed a decline. Ensuring Aid for Trade is aligned with country priorities for infrastructure and industrialization, and is incorporated in integrated national financing frameworks, will contribute to implementation of the 2030 Agenda.

SDG 10: Reduce inequality within and among countries

SDG 10 aims to reduce inequality within and among countries. Inequality can erode trust and leave the most marginalized behind. At the same time, reduced inequality is associated with stronger, more sustainable growth. The global context chapter (**chapter I**) finds that income inequality within countries has increased over the past three decades in about half the countries where estimates have been made. Indeed, most people live in countries with increasing income inequality, and individuals in the bottom 10 percent of income scales in many countries have seen little or no growth in disposable income over the last decade (section 3).

Many factors have contributed to this trend, some of which are discussed in this report. Advances in technology are displacing low- and medium-skilled workers while benefiting higher-skilled workers, thus exacerbating inequality, as discussed in **chapter III.G** (section 3). As highlighted in **chapter III.B**, market concentration has been rising across a range of industries in some countries, particularly in the digital economy, with a high concentration of profits among a few companies and locations (section 7.2). Such concentration has contributed to a decline in the share of wages in favour of profits, raising inequality. **Chapter III.B** also explores how the financial sector has impacted inequality. On the one hand, financial development benefits the poor, with better access to financial services helping some people escape poverty (section 7.1). Promoting financial inclusion can thus have a positive impact on inequality when implemented with consumer protection. Financial inclusion can also reduce transaction costs for migrant remittances (SDG means of implementation target 10.c) (section 6.1). On the other hand, excess financialization may contribute to greater income inequality, as the financial sector appropriates a disproportionate share of profits and may lead to some degree of regulatory capture (section 7.1). Excess financialization may also result in an unsustainable build-up of debt, increasing the risk of a financial crisis, which may widen inequality. Policy solutions will require efforts across government, including revisiting competition policy, as well as promoting regulatory and other policies aimed at reducing financial and capital market risks and ensuring that finance benefits the real economy (**chapter III.F** section 3).

Chapter III.A discusses the role of fiscal systems in reducing inequality. Fiscal systems can incorporate impact analysis on inequality on both taxation and expenditure (section 3). Effective and progressive tax systems can lower inequality, as can public spending, including the provision of public services and social protection. Labour policies, such as minimum wages, and efforts at formalizing businesses, which allows better enforcement of labour rights, also lower inequality.

The benefits from international trade have not been shared equitably and have required costly adjustments from some groups of workers, though recent research shows this effect might be smaller than believed. **Chapter III.D** underlines that expediting preferential market access for least developed countries (SDG means of implementation target 10.a) should contribute to making trade more inclusive, (section 2.2). Investment in education and training to provide workers with skills in high demand also helps reduce inequality (section 6.2).

Tackling inequality requires partnership–governments, the private sector, and civil society working together to eradicate discrimination against women, design the right labor market reforms, and strengthen education, training and social protection systems. While certain policies can be implemented at the national level, others require international efforts, for example, international tax cooperation (**chapter III.A** section 5), global governance (**chapter III.F**, box 2) and the monitoring of global market concentration trends (**chapter III.B** section 7.2). Key international efforts to reduce inequality also include enhancing official development assistance flows (SDG means of implementation target 10.b), which are covered in detail in **chapter III.C**.

SDG 13: Take urgent action to combat climate change and its impacts

SDG 13 commits the international community to take urgent action on climate change mitigation and adaptation, noting the need for awareness-raising, capacity-building and financing. Climate risk is the most important systemic risk for the near future, but climate change is proceeding faster than humanity is tackling the problem. There is no country that is not experiencing the drastic effects first-hand.

The global context chapter (**chapter I**) provides data on growth in emissions and trends in the carbon intensity of the economy. It highlights the urgency of more ambitious actions if the international community wants to avoid the worst impacts of climate change by limiting the average temperature increase to 1.5°C (section 4).

Chapter III.A discusses how national fiscal systems are crucial for transitioning the world to a sustainable, low-carbon economy. Carbon pricing and other environmental taxation can help steer economic activities away from high emissions, while at the same time generating fiscal revenues (section 4). Climate change adaptation can be bolstered by expenditure on disaster resilience and setting incentives for disaster risk reduction (section 4.4).

Chapter III.B highlights that investors are gradually recognizing that the performance of companies on environmental issues may affect their financial performance (section 2). They are thus incorporating these elements into their investment decisions. Policy measures should complement private initiatives, and help build a policy environment that aligns private sector incentives with public goals (for example, through carbon pricing) and strengthens accountability. These measures include promoting more meaningful and harmonized sustainability reporting by corporations and clarifying the fiduciary duties of institutional investors. The impact of climate risks on financial sector returns, risks and stability is also considered in **chapter III.F** (section 3), which highlights the role that credit rating agencies can play in assessing and publishing these risks.

Chapter III.C reviews progress towards the commitment made by developed-country parties to the United Nations Framework Convention on Climate Change (UNFCCC) to jointly mobilize $100 billion annually by 2020 to support the climate financing needs of developing countries. Climate finance is the SDG means of implementation target 13.a. The report highlights how access to climate finance for the poorest and most vulnerable countries will need to be improved (section 6.2). Lessons on governance and institutional coordination of climate financing are also covered in **chapter II** (box 4).

Chapter III.C also highlights the importance of international cooperation for resilience building, to support developing countries' disaster risk reduction strategies, and the particular relevance of ex ante financial instruments to incentivize risk reduction (section 6.1).

Chapter III.G notes that green technology transfer was meant to be a key element of the UNFCCC Clean Development Mechanism. It reports that the bulk of environmentally sound technologies have been developed in response to explicit and strong government support, providing Governments with leverage to disseminate them more broadly in the larger public interest (section 5).

Promoting planning and management is the SDG means of implementation target 13.b, and **chapter II** lays out steps for countries to develop institutional coordination mechanisms for more effective planning (section 4.1).

SDG 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

SDG 16 promotes peaceful and inclusive societies, the provision of access to justice for all, and the building of effective, accountable and inclusive institutions at all levels. In the Addis Ababa Action Agenda, Member States of the United Nations agree to "promote peaceful and inclusive societies," with an emphasis on institutions as a means of implementation. This report covers both national level institution-building as well as efforts at the international level.

Chapter II lays out steps for countries to develop and implement integrated national financing frameworks. Effective, accountable and transparent institutions are a key element of these frameworks. This includes institutional coordination mechanisms, such as national steering committees, which can provide leadership, facilitate a whole-of-government approach and policy coherence, and lead a consultative process that engages all relevant stakeholders, including parliament, civil society, the private sector and other non-state actors. Many examples are presented throughout the report, such as **chapter III.A,** which notes the importance of the consultative process to generate broad national agreement on medium-term revenue strategies so those strategies can extend across political cycles (section 2.4).

At the international level, the role of global institutions is discussed throughout the report. To achieve the SDGs, international norms and institutions need to be fit for purpose. Rising global economic risks, the rapidly changing international landscape, and insufficient progress on some SDGs (such as combatting climate change) have sensitized more stakeholders to the need for reforms to the current multilateral system. This creates a window of opportunity for reform, which is discussed in relation to the multilateral trading system (**chapter III.D** section 3), tax (**chapter III.A** section 5), debt (**chapter III.E** section 5) and the international financial architecture (**chapter III.F** section 2).

Chapter III.F further notes that the 2030 Agenda makes high demands to maximize synergies and break down silos. Coherence of financial and economic systems with sustainable development is critical (section 5). The deeper coordination that is now needed extends across policy areas and institutions including tax, investment, competition and non-economic issues–which have previously been excluded from the development discourse–such as climate change, disaster risk, human rights, gender and migration.

SDG 16 also makes specific reference to reducing illicit financial flows (IFFs), which are discussed in **chapter III.A**. While there remains no universally agreed definition of what constitutes IFFs, the report highlights efforts to estimate the volume of different components of IFFs and the policy work needed to tackle money laundering, combat corruption and return stolen assets (section 6). Progress can be enhanced by both greater national enforcement and enhanced international cooperation across the channels and mechanisms that contribute to the problem.

Endnotes

1 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, available from http://developmentfinance.un.org.
2 United Nations, "Report of the Economic and Social Council forum on financing for development follow-up", 9 May 2018, E/FFDF/2018/3.
3 For additional information on these workstreams and related technical meetings, please refer to the online annex, available from https://developmentfinance.un.org/workstreams.
4 United Nations, "Report of the Intergovernmental Group of Experts on Financing for Development on its second session", 10 January 2019, TD/B/EFD/2/3.
5 See UNESCO, "Pricing the right to education", Policy Paper 18 (2015).
6 UNESCO, *Global Education Monitoring Report, 2019: Migration, displacement and education: building bridges, not walls* (Paris, 2018).