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Follow-up and review of the financing for development outcomes and the means of implementation of the 2030 Agenda for Sustainable Development

Financing for sustainable development

Note by the Secretary-General*

Summary

The present note, which highlights the main findings of the 2020 report of the Inter-Agency Task Force on Financing for Development, provides an assessment of progress in implementing the financing for development outcomes. In its report, the Task Force draws upon the expertise, analysis and data collected by over 60 of its members. It analyses the global economic context and its implications for sustainable development, challenges and opportunities for financing sustainable development in an era of transformative digital technologies and progress in the action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development.

* The present note was submitted after the deadline so as to include technical corrections and clarifications made in response to comments received during a series of technical briefings held from 9 to 13 March 2020.

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I. Overview

1. The financing landscape has changed dramatically since the adoption of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development. Digital technology has transformed key aspects of financial systems. There has also been rapidly growing interest in sustainable investing, in part owing to greater awareness of the impact of climate and other non-economic risks on financial returns.

2. Nevertheless, as we begin the decade of action for the Sustainable Development Goals, global challenges have multiplied, undermining the ability to implement the Goals by 2030. The economic and financial shocks associated with COVID-19, including disruptions to industrial production, financial market volatility and rising insecurity, threaten to derail already tepid economic growth and compound heightened risks. These include the retreat from multilateralism, the heightened risk of debt distress and more frequent and severe climate shocks.

3. In the context of such destabilizing trends, the Inter-Agency Task Force on Financing for Development indicates, in its *Financing for Sustainable Development Report 202*0, that the international economic and financial systems are not only failing to deliver on the Goals, but that there has been backsliding in key action areas. Governments, businesses and individuals must take action now to arrest the trends and change the trajectory.

Arresting the backslide

4. The unfavourable condition described above is demonstrated by the following trends:

(a) Slowing economic growth: global growth is expected to slow markedly in 2020 owing to the impact of COVID-19, with a high risk of global recession;

(b) Growing financial risks: short-term financial market volatility has increased because of COVID-19, while an extended period of low interest rates has incentivized riskier behaviour. Financial intermediation has steadily migrated to non-bank financial intermediaries, which hold over 30 per cent of global financial assets;

(c) Declining assistance: official development assistance (ODA) fell by 4.3 per cent in 2018, and ODA to the least developed countries fell by 2.1 per cent;

(d) High debt risk: debt risks will likely rise further in the most vulnerable countries. Some 44 per cent of the least developed and other low-income developing countries are currently at high risk or in debt distress, reflecting a doubling of debt risk in less than five years (in 2015, it was at 22 per cent). This number could rise as COVID-19 and related global economic and commodity price shocks put increasing pressure on heavily indebted countries, in particular oil exporters;

(e) Increasing trade restrictions: the trade coverage of import-restrictive measures is almost 10 times greater than two years ago. The Appellate Body of the World Trade Organization (WTO), meanwhile, no longer has enough members to rule on trade disputes. The COVID-19 crisis compounds the impact of these restrictions and significantly disrupts trade in goods and services. It also disrupts global value chains, with merchandise exports expected to fall by a minimum of $50 billion;

(f) Increasing environmental shocks: greenhouse gas emissions continue to rise, posing risks to sustainable development. Between 2014 and 2018, the estimated number of weather-related loss events worldwide increased by over 30 per cent compared with the preceding five years.

5. In such an environment, many countries, especially the least developed countries, small island developing States and other vulnerable countries, will not be able to achieve the Goals by 2030.

An urgent priority for the international community

6. While many of the above issues have deep-rooted causes, the following four immediate actions can help to turn the tide:

(a) The global community must come together to enhance cooperation and take concerted, forceful and swift action to combat the impact of COVID-19, maintain economic and financial stability, promote trade and stimulate growth;

(b) Donors should immediately reverse the decline in ODA, in particular to the least developed countries, which may be hard hit by both social and economic impacts of COVID-19;

(c) Creditors and debtors should work together to pilot and expand initiatives to help heavily indebted and vulnerable countries to manage risks and gain fiscal space for investment;

(d) Financial instruments, highlighted throughout the present report, should be implemented and used to reduce climate risks and raise resources for investments in the Goals.

7. However, these actions alone will not suffice, and piecemeal approaches will not succeed. The most intractable challenges, including the increasingly strained multilateral trading system, debt challenges, climate risks and other systemic risks, are global in nature and can only be addressed if all countries come together and work towards common objectives. Collective action remains indispensable.

Accelerating the transition

8. As the international community strives to address these long-standing concerns, the urgency of the 2030 Agenda also demands that every opportunity be taken to accelerate progress. The Task Force has identified two key trends that can help to accelerate the transition towards sustainable finance, namely the rapid growth of digital technologies and the growing interest in sustainable investing. Neither of these trends will support the Goals on their own, but with public leadership, supportive public policies and private sector engagement they can help to put us on the right trajectory, while also helping to address the current crisis.

First accelerator: harnessing digital technologies in support of sustainable finance

9. Digital technologies have a wide-reaching impact across all the Goals and on financing for sustainable development through financial markets, public finance and development pathways. They can also be used to help to address health crises and facilitate remote work during the current crisis.

10. However, existing policy and regulatory frameworks are not suited to the new realities. While there is uncertainty as to how digital economies will evolve over the next 10 years, policymakers do not have the luxury of waiting. The national and global policy and regulatory frameworks put in place now will determine whether digital technologies accelerate or reverse progress, in particular with regard to its distributional impact.

11. A new approach is needed to ensure that technological change supports implementation of the Goals, namely one that prioritizes people in the following ways:

(a) Prioritizing inclusion: digital technologies can enable wider access to products and financial services and increase efficiencies, but their impact on inequality must be managed, based on the following considerations:

(i) Many, in particular women and girls, remain excluded from the digital economy;

(ii) Algorithms codify existing biases, such as gender biases in credit screenings;

(iii) Digital industries achieve scale and global reach quickly, leading to new forms of concentration. Global platforms are acquiring significant market power as economic activity is increasingly concentrated;

(b) Prioritizing labour: current social protection systems may no longer be viable in a gig economy in which employment relations become more precarious. Development pathways can become more challenging, as new technologies may create fewer jobs. Countries should pursue labour-intensive development pathways by incentivizing investment in more labour-intensive industries.

12. Keeping a human-centred perspective at the heart of efforts to regulate digital finance and design development pathways can ensure that the whole of society benefits from digital adoption.

13. It is recommended that the following actions be taken as starting points:

(a) Building basic digital access: this approach would include efforts related to infrastructure and skills;

(b) Coordinating regulation across sectors: regulatory frameworks need to be rewritten and coordinated across sectors, including the financial, competition and data security sectors;

(c) Cooperating across borders: multilateral cooperation needs to be strengthened to facilitate experience-sharing and capacity support, in particular for the least developed countries.

Second accelerator: nurturing growing interest in sustainable investment

14. The approach to human-centred finance should build upon the growing interest in sustainable investment. Increasingly, business leaders are acknowledging that they must take sustainability factors into account in order to achieve long-term financial success and ensure the viability of their business model. This includes both social and environmental factors. In the current crisis, for example, if banks show short-term forbearance on small and medium-sized enterprises, mortgages and other loans in the near term, financial returns could increase in the medium term.

15. Similarly, individual investors are increasingly interested in supporting sustainable finance. However, the tools necessary to make informed choices are not readily available. Investors are not often asked about sustainability preferences by their financial advisers, and reliable sustainability metrics to evaluate the impact are not in place. This needs to change. Voluntary actions, which have characterized the sustainable finance industry to date, are insufficient to achieve the scale of change that is required. Policymakers should help to implement the following three measures:

(a) Adoption of sustainability risk disclosures: policymakers should adopt global mandatory financial disclosures on climate-related financial risk. Businesses should be also be accountable for broader sustainable development impacts and be required to include common and comparable sustainability metrics in their reporting;

(b) Establishment of sustainability standards: regulators should establish minimum standards for investment products, verifying how products can be marketed;

(c) Requirement for sustainability preference solicitation: investment advisers should be required to ask clients about their sustainability preferences, along with the information already requested.

16. The United Nations has a clear role to play in supporting policymakers and business in the implementation of the above measures. Specifically, it can help to create a clear understanding of what sustainable investment means, providing definitional parameters within which to set disclosures, metrics and standards.

17. Importantly, neither of the above measures – arresting the backslide and accelerating the transition – are possible without the support of the entire international community.

Aggregating and advancing together

18. Implementing sustainable development, whether responding to COVID-19, eradicating poverty, reducing inequality or combating climate change, requires every actor, national and subnational, to be on board. As many of these challenges are global, addressing them requires joint, integrated approaches. Siloed and single-country efforts will be insufficient.

19. The international community needs to take immediate concerted actions to respond to COVID-19. As noted above, Governments should coordinate measures at the global level to ensure maximum impact. The current crisis also underlines the need to strengthen crisis investment in crisis prevention, risk reduction and planning. Postponing such investments only increases the ultimate costs to the society. Experience from responses to disasters and other hazards indicates the need for ex ante financing instruments, which build incentives for risk reduction into their design.

20. The forums to align resources and advance collective action exist but remain underutilized. By making use of the Economic and Social Council forum on financing for development follow-up and other United Nations forums, such as the fifteenth quadrennial conference of the United Nations Conference on Trade and Development, we can ensure that the whole approach to sustainable finance is greater than the sum of its parts. As we work together to creatively solve global challenges, we must continue to pursue inclusive multilateralism to ensure that no country is left behind in the decade of action for the Sustainable Development Goals.

II. Global economic context

21. In early 2020, Task Force members lowered their already tepid growth forecasts owing to the spread of the coronavirus. Even in the most benign scenario, global growth is expected to slow further in 2020, below the decade-low growth of 2.3 per cent in 2019. The outlook is subject to significant downside risks and uncertainty, including the significant risk of a global recession owing to the coronavirus. A renewed escalation of trade disputes and a further rise in geopolitical tensions could also affect global growth in the short-to-medium term. Beyond these risks, the climate crisis continues to pose a rising threat to economic prospects. Without decisive policy action, there is a distinct possibility of a sharp slowdown in global economic activity.

22. These challenges pose extremely serious risks to the timely implementation of the Sustainable Development Goals. Subdued global growth was already setting back progress towards higher living standards. Before the outbreak of COVID-19, one in

five countries – many of which are home to large numbers of people living in poverty – was likely to see per capita incomes stagnate or decline in 2020. This number will likely be higher owing to economic disruptions from the pandemic.

23. Existing economic vulnerabilities are being further aggravated by the impact of COVID-19 and related factors. Disruptions in industrial production are affecting global value chains and putting additional pressure on already weak trade and investment growth. Rising volatility in financial markets could expose vulnerabilities in several economies with systemically important financial sectors. Risks of debt distress in public and private debt, both of which were already at record highs relative to gross domestic product (GDP) in developed and developing economies, are increasing. The related fall in commodity prices –in particular oil prices, which have been aggravated by political tensions – is putting further pressure on debt sustainability in some countries. In Africa, six countries with high levels of oil exports could experience significant shocks, while the fall in tourism will hurt small island developing States and other tourism-dependent countries.

24. To date, monetary policy easing in many systemically important countries has helped to support near-term activity. During periods of high uncertainty, monetary policy can boost liquidity to ensure continued functioning of markets and support lending. However, it will be insufficient to mitigate the economic impact of a global pandemic and restore medium-term robust growth to the world economy.

25. Swift and forceful policy action is needed in response to COVID-19, drawing on the full policy toolbox – including fiscal policy supported by monetary, macroprudential and capital flow management policies – according to countries' fiscal positions and financial vulnerabilities. Given the interrelated nature of the global economy, rapid response measures should be coordinated at the global level to ensure maximum impact and signal global resolve to maintain economic and financial stability, promote trade and stimulate growth. Over the medium term, strengthened social protection systems, structural and regulatory reforms and public and private investment will be important in strengthening potential growth, address the rapidly changing technological landscape and boost sustainable development prospects, as discussed below.

III. Financing sustainable development in an era of transformative digital technologies

26. Digital technologies have come into much sharper focus since 2015, affecting the main areas of finance and development highlighted in the Addis Ababa Action Agenda, namely financial markets, public finance and development pathways (trade and investment).

27. Digital technologies create tremendous opportunities for achieving a more sustainable financial system that supports the Sustainable Development Goals. They can enable inclusion and wider access to products and services and increase efficiencies, in particular in the financial sector and public financial management. They can also strengthen societal resilience to crises. During the COVID-19 outbreak, digital communication tools help to sustain human interaction and continuity in some vital economic activities, although many developing countries do not have such capacities, putting them at a disadvantage.

28. As with similar transitions in previous eras, however, rapid technological change also causes "growing pains" and the emergence of new risks. How quickly and effectively policies and regulatory frameworks adjust will determine their contribution to sustainable development.

29. Current institutions and policy frameworks are often ill equipped to address new risks, such as the growing dominance and market power of big tech firms across sectors and national borders. How frontier digital technologies will evolve over the next 10 years, and how they will affect inequality, jobs and development pathways, remains unclear.

30. No country, and no financing and economic policy domain, will remain entirely unaffected. While policy solutions will depend on a country's unique circumstances, all countries must prepare now for an increasingly digital economy in the future. The *Financing for Sustainable Development Report 2020* contains policy options across all action areas of the Addis Ababa Action Agenda, as a way to promote the potential of digital technologies for the benefit of people and to ensure that gains are shared widely and risks are managed carefully, and that national actions are supported by collective global measures.

31. The following key recommendations emerge from the analysis in this report:

(a) A strategic approach to digital finance should be taken to provide a common frame of reference for all actors. This can take different forms, as part of a science, technology and innovation strategy or road map or explicit integration of digital technologies into the broader planning process (e.g., embedded in a country's integrated national financing framework);

(b) Basic building blocks should be put in place now, including prerequisite infrastructure, digital skills and updated enabling regulatory and policy environments;

(c) Policy frameworks and the regulatory architecture should be revisited to ensure that they respond to the cross-cutting effects of digital technologies on financing. Silo-style regulation will not be viable when digital technologies, information and communications technology, data, finance and other sectors interact in myriad ways;

(d) A level playing field should be maintained to ensure that the entry of players that harness the power of big data leads to innovation rather than market domination (e.g., large technology companies in the financial sector);

(e) Labour-intensive development pathways should be identified to avoid incentivizing digital technologies that are labour-replacing when unemployment is a major policy challenge. Preparing for the digital age can be pursued in parallel to supporting more labour-intensive development pathways, with a two-pronged approach;

(f) Global collaboration for peer learning among policymakers and regulators should be stepped up to strengthen capacity support and facilitate coordinated responses, such as global guidelines and standards.

IV. Recommendations across the action areas of the Addis Ababa Action Agenda

Domestic public resources

32. Domestic public resources have a unique role to play in financing sustainable development. The link between revenue collection and expenditures for quality public goods and services forms the basis of the social contract between citizens and the State.

33. Since 2015, there have been improvements in tax policies and international cooperation in some significant areas, but five years into the implementation of the Addis Ababa Action Agenda, positive reforms have not been fully integrated, either

nationally or internationally. The slow and steady progress in domestic public resource mobilization is insufficient to match the scale and ambition of the 2030 Agenda. Only about 40 per cent of developing countries clearly increased tax-to-GDP ratios between 2015 and 2018. Political will for reform and assistance for capacity-building are inadequate, while sustainable development is not yet universally prioritized in expenditure allocation and budget processes.

34. Many more Members States should be preparing multi-year country plans for tax policy and administration reform, to increase inclusive revenue mobilization and support public investment to achieve sustainable development. For medium-term revenue strategies to be effective, they should be country-owned, reflect development priorities, be prepared by the whole of Government and have the full backing of national political leaders. This reinforces the social contract and accountability to citizens, who can demand better service delivery alongside more effective governance.

35. Fiscal reform plans should also take into account existing capacities and should be focused on the binding constraints to greater revenue raising, which can help countries to prioritize actions to raise revenues. Fiscal systems also need sufficient resilience and flexibility so that they can face unexpected circumstances, such as the rapid spread of COVID-19. In such situations, revenues are likely to decline as economic activity slows, while expenditures may increase, especially health sector and social protection spending.

36. Governments should invest in technology to support all parts of the fiscal system, such as tax administration, financial crimes enforcement and budget execution. Such investment should be aligned with medium-term revenue and expenditure plans and can be supported by international partners. There is enormous scope to use technology to strengthen public financial management for revenue mobilization and more efficient spending. This includes relatively old technologies, such as digital databases for expenditure and tax administration, as well as new technologies, such as artificial intelligence and distributed ledgers.

37. The continued digitalization of the economy is also making tax norms agreed upon almost a century ago obsolete. Any new international tax norms being developed to address challenges from technology must be well-tailored for developing countries, including the least developed and smaller countries, and be inclusive of developing country voices in their formation and agreement. Countries need to be afforded sufficient additional time to determine the advisability of reforms before they are agreed upon and provided with technical assistance to accurately assess the medium- and long-term impact of proposed changes on their economies.

38. While significant progress has been made in international tax cooperation, the interests and voice of developing economies require greater priority and attention. The global community could better ensure effective inclusion in tax norm setting processes, adaptation of tax norms and practices to the realities and needs of developing countries and greater investment in capacity-building from development partners. Countries without access to information, and without sufficient domestic capacity to enforce increasingly complex international tax norms, will be unable to boost revenue mobilization related to cross-border activity.

39. Policy actions on illicit financial flows lag behind the political rhetoric. To be most effective, efforts to tackle such flows should be focused on specific components. International cooperation is needed to tackle all aspects of illicit financial flows. Especially important actions include spontaneous information-sharing and mutual legal assistance. Internationally, tax-related illicit financial flows are being tackled with some of the international tax cooperation tools. Effective national actions for combating tax-related, corruption-related and other kinds of illicit financial flows in

all countries include more capacity to prevent and investigate all types of suspicious transactions, more effective cross-institutional coordination in national enforcement and more assiduous implementation of national commitments made under the United Nations Convention against Corruption.

40. New technologies, such as cryptoassets, are facilitating illicit financial flows, underscoring the importance of concerted enforcement efforts and constant vigilance of the financial system. New technology, such as artificial intelligence, can also enable better identification of suspicious activity, including by matching tax filing data to other data sets, such as customs declarations, financial account information or real estate transaction registers. However, technology should be only one component of a broader political strategy to tackle illicit finance.

41. Nationally and internationally, corruption occurs as public and non-State actors respond to the incentives and social and economic constructs that are present. Embedding new expectations and social norms and shifting political settlements related to accountability, transparency and integrity will require leadership from the top as well as localized, sector- and context-specific actions. Countries also need to step up implementation of prior commitments and cooperation on stolen asset recovery and return. More regular and rigorous sharing of statistical information on legal assistance requested and provided, as well as the results in terms of assets returned, can be useful.

42. How revenues are spent is as important as the amount mobilized. Medium-term expenditure frameworks, which complement revenue frameworks, bring together a holistic picture of the fiscal system. Expenditure frameworks should be aligned with the Goals and can be facilitated by being part of integrated national financing frameworks. Some countries have already started mapping their budgets to the Goals. Policymakers should embed gender equality and the economic empowerment of women into expenditure and strategic procurement across all sectors. Spending should be informed by national disaster risk reduction financing strategies. Similarly, environmental sustainability needs to be made a core element of domestic public investment policies if climate goals are to be met. Multilateral agencies provide tools for these and other areas, including capacity-building, which can help countries to ensure that their fiscal systems support the Goals and leave no one behind.

Domestic and international private business and finance

43. Unlocking private business and finance is one of the greatest challenges to achieving sustainable development and reinvigorating the economy following the impact of the COVID-19 crisis.

44. On a country level, Governments have several levers that they can use to create a thriving business environment and reduce investment risks. To help to prioritize actions, policymakers should identify and target binding constraints to private sector development in support of the Goals. This could include a variety of areas. The first lever is strengthening the legal and regulatory environment. The second relates to providing infrastructure services essential for sustainable development and the functioning of the economy. Despite all the initiatives in this area, infrastructure gaps between developed and developing countries remain considerable. The international community should further help countries to build the internal capacity necessary to deliver cost-efficient and resilient infrastructure solutions, including developing "investable projects" when feasible. The third addresses financial constraints, in particular those affecting micro, small and medium-sized enterprises. This approach requires harnessing technological advancements in order, for instance, to overcome data gaps for credit risk assessment.

45. Building an enabling business environment, however, may not be sufficient to mobilize investment at the speed and scale required to achieve the Goals, in particular in countries most in need and in sectors key for sustainability. Identifying the type of financial instruments most likely to deliver results given the local context will again require a proper assessment of the key constraints to investment. In the report, the Task Force sets out a number of tools and financial instruments that can be used to overcome some of the impediments to private investment. For instance, international vehicles can be used to manage currency, disaster and political risks, in part through their ability to diversify across countries and risks. Smartly structured private equity and venture funds, including those bringing together public and private investment, could mobilize additional equity financing needed to support innovative companies in less advanced economies. It also addresses country ownership and fair risk/reward sharing between public and private partners is necessary for these instruments to be effective. Innovative models, such as auction systems, can be designed to minimize subsidies and optimally use scarce concessional resources.

46. Major changes are also required in the way in which private business and finance works. The need for a systemic change is evident from the lack of sufficient progress in many sustainable areas in which companies have a large impact (e.g., carbon emissions and gender balance). Business leaders increasingly acknowledge that taking sustainability factors into consideration will be necessary to ensure the long-term viability of their companies. However, turning this awareness into action requires the following measures:

(a) Adjusting corporate governance, aligning internal incentives, such as remuneration criteria for Chief Executive Officers, and addressing the persistent short-termism in capital markets;

(b) Making companies more accountable. This is impossible without meaningful information on companies' social and environmental impact. Reporting requirements for large companies need to include a common set of sustainable metrics regardless of their materiality impact. Through its analytical work, the Task Force can facilitate convergence between reporting initiatives and the emergence of harmonized and comparable data. This is key to supporting sustainability-driven investor initiatives, such as the Global Investors for Sustainable Development Alliance;

(c) Enabling people to use their money to support changes in which they believe. A strong appetite for this from individual investors is shown in every survey in that regard. However, individuals do not always have the possibility to do so, because no one asks them questions about their sustainability preferences, because they cannot find credible investment products or because they are sold products marketed as sustainable with no impact in reality. This needs to change. Investment advisers should be required to ask their clients about their sustainability preferences along with the other information they already request;

(d) Establishing minimum standards for investment products to be marketed as sustainable. A common definition of what constitutes sustainable development investing would be an important step towards setting such standards. International platforms, such as the United Nations, need to be leveraged to develop a shared understanding at the global level and avoid the proliferation of competing and possibly conflicting standards.

International development cooperation

47. The 2030 Agenda will place significant demands on public budgets and capacities, which require scaled-up and more effective international support, including both concessional and non-concessional financing. Nevertheless, in 2018, ODA declined by 4.3 per cent and remains well below the 0.7 per cent commitment

in the Addis Ababa Action Agenda. The decline was in large part due to a decrease in financing for refugees in donor countries, but gross ODA to the least developed countries also fell by 2.2 per cent in real terms. The Task Force calls upon providers of ODA to reverse the decline in ODA, in particular to the least developed countries, and strongly reiterates previous calls for such providers to step up efforts to meet their commitments in the Addis Ababa Action Agenda.

48. South-South cooperation continues to expand in scope, volume and geographical reach. As the role of South-South and triangular cooperation deepens, documenting its added value and impact on sustainable development by relevant stakeholders could further support implementation of the Goals.

49. In the Addis Ababa Action Agenda, the important role of development banks in the implementation of the 2030 Agenda is also recognized. In 2019, several multilateral development banks completed successful capital replenishments. In addition, some multilateral development banks have taken steps to raise additional resources through innovative mechanisms. Other development financial institutions can learn from innovative efforts to raise additional resources, including risks that need to be managed. Multilateral development banks have also increased efforts to align activities with the Addis Ababa Action Agenda and the 2030 Agenda. These activities should be continued and stepped up to fully align activities with the 2030 Agenda, including harmonizing gender equality monitoring indicators.

50. The recent spread of COVID-19 also raises questions as to whether available resources are sufficient to help countries to prevent and respond to epidemics and pandemics. Experience from responses to disasters and other hazards indicates the need for ex ante financing instruments that are efficient and predictable, can be dispensed quickly and build incentives for risk reduction into their design. This includes an increased focus on investing in disaster risk reduction, including the prevention and preparedness of epidemics and pandemics.

51. A range of public finance instruments to raise resources for the Goals is explored by the Task Force in the report, in the context of international development cooperation, building on the financial instruments referred to in the report. The Task Force indicates that such instruments are not panaceas to fill the investment gap, but can be useful tools to make aid more effective and leverage other types of finance when appropriate.

52. Blended finance is one instrument that has received significant attention. While it has grown rapidly, the evidence on its development impact is less robust. Most blended finance currently goes to middle-income countries, motivated by the size and ease of transactions, with only a small portion going to the least developed countries, in part because blended finance is not appropriate for all investments or activities. To increase effectiveness, concessional resources should be allocated where the need and impact are greatest. Blended finance needs to switch from a search for bankability to a search for impact, based on country needs and ownership, with judicious use of blending in circumstances in which it is the best suited tool. Capacity development in support of these efforts can help countries to identify and apply appropriate instruments.

53. In the next 10 years, many developing countries are expected to transition to higher income per capita status. Higher incomes can be translated into tangible progress in achieving the Goals. Nonetheless, this positive news comes with challenges, especially for graduates that are highly vulnerable to climatic events and other disasters, as graduating countries may lose access to concessional finance windows. In response, ODA providers are including greater flexibilities for vulnerability, conflict and political instability. However, there are areas for improvement for all graduation contexts (such as graduation of the least developed

countries, graduation from multilateral concessional windows and ODA graduation), including the following: emphasis on pre-graduation planning (including addressing simultaneous graduations); capacity development focused on areas in which financing constraints may be greatest (e.g., for domestic resource mobilization and debt management); and strengthening exceptional and temporary support measures for countries in transition, including having a process for reverse graduation.

54. Efforts to increase ODA and mobilize additional resources for development must be matched by efforts to improve the quality, impact and effectiveness of development cooperation. Countries should aim to better link their plans, strategies and resources, while development partners should make more effort to align their interventions with country priorities. Integrated national financing frameworks can be a useful tool to improve the effectiveness of development cooperation by matching plans, strategies and resources.

International trade as an engine for development

55. International trade has contributed to economic growth, poverty reduction and private financial flows across countries supported by strong international cooperation, embodied in the multilateral trading system. Recent trade tensions have challenged the way in which international trade works. In addition, the COVID-19 crisis will have a significant impact on trade, including trade in services. Any response to the crisis that would further advance protectionism will contribute to a slowdown in post-crisis recovery.

56. Despite its considerable achievements, the multilateral trading system currently faces challenges on a scale unseen for decades. Over the past two years, Governments have introduced trade restrictions covering a substantial amount of international trade. This trend needs to be reversed. Governments need to show strong collective leadership and coordination in curbing the imposition of new trade-restrictive measures and reducing the accumulated stock of restrictions.

57. Another major challenge for the multilateral trading system is the paralysis of the WTO Appellate Body, which no longer has enough members to rule on trade disputes. It is important for WTO members to identify potential solutions to the current gridlock. At the same time, some members have agreed to work on interim options to keep a two-stage dispute settlement mechanism operational while a more permanent solution is agreed upon.

58. The multilateral response to these formidable challenges will shape the course of the global economy for decades to come. Many members have shown a clear willingness to preserve and strengthen the global trading system under WTO. They need to turn their words into action.

59. WTO reform should make the multilateral trading system more reactive to twenty-first century geoeconomic realities so that it can continue its important role in delivering the 2030 Agenda. For instance, WTO members are working on new trade rules aimed at reducing harmful fishing subsidies that cause overfishing and overcapacity. Agriculture negotiations, which historically have been an important issue for developing countries, have also been reenergized. Groups of WTO members are also exploring potential future rules on investment facilitation, e-commerce and domestic regulations on the trade in services, as well as on micro, small and medium-sized enterprises, and on empowering women in the world economy. The twelfth WTO Ministerial Conference, to be held in Kazakhstan in June 2020, will be a landmark for such efforts.

60. To enhance the contribution of international trade to sustainable development, immediate action to address two other issues must be taken by the international

community. The first is to put in place measures to address the ongoing challenges faced by the least developed countries in international trade. This may include agreeing on possible follow-up to target 17.11 of the Sustainable Development Goals, which contains calls for doubling the share of the least developed countries in global trade by 2020. Such follow-up would include building trade and productive capacities so that the provision of preferential market access to the least developed countries can contribute more to export growth, as well as economic diversification. This would require continual supportive mechanisms such as the Aid for Trade initiative and the Enhanced Integrated Framework. Countries that graduate from the least developed countries category in the coming years could also be provided with temporary market access provisions to ensure a smooth transition and reduce the impact of a sudden loss of preferences.

61. The second issue is to scale up actions at the national and international levels to better distribute the gains from trade. For example, the introduction of new technology plays a significant role in helping smaller producers and businesses to receive gains from international trade, such as through e-commerce. Empowerment through digital technologies can also foster the upward mobility of women beyond the informal sector. To help small-scale producers and businesses to reap opportunities from e-commerce and the digital economy, international support must be increased, including in the form of aid for trade, to improve the physical and institutional e-commerce readiness of developing countries. Any comprehensive rules on e-commerce being explored should also effectively address the specific needs of developing countries.

62. Making trade more inclusive also requires addressing trade finance gaps that disproportionally affect smaller companies and impede the ability of countries to seize all trade opportunities that would otherwise be available. Multilateral efforts to address trade finance gaps cooperatively need to continue, including helping local banks to leverage technology to digitalize paper-intensive products and streamline verification processes.

63. One possible channel to enhance the positive impact of trade upon inclusive and sustainable development is through sustainable bilateral agreements, regional trade agreements or international investment agreements. Newer generations of such agreements are designed with a sustainable development orientation, such as the economic empowerment of women, respect for basic human rights and environmental sustainability. New or renegotiated agreements should address synergies between trade, investment and socioeconomic and environmental policy, as well as possible negative linkages, and be aimed at distributing economic gains from trade to those who need it most, including smaller producers and businesses in developing countries.

Debt and debt sustainability

64. The debt of developing countries continued to rise in 2019, albeit at a slower pace, and, with it, the risks to debt sustainability. Some 44 per cent of low-income countries and the least developed countries are currently assessed as being at high risk of external debt distress or already in debt distress. COVID-19 and related global economic and commodity price shocks could significantly increase this number. For example, several African countries reliant on oil exports could find themselves in debt distress.

65. As noted in the report the long period of low international interest rates and unprecedented levels of global liquidity associated with quantitative easing facilitated the growth in borrowing. Developing countries, including the least developed countries, have greater access to commercial financing. Lending by official creditors

that are not part of the Paris Club of Industrial Country Creditors has increased, opening new opportunities for borrowers to finance development.

66. The shifting creditor landscape has also changed the structure of the debt of borrowing countries, increasing their exposure to interest rate, exchange rate and rollover risks. With commercial debt accounting for a growing share of sovereign borrowing, debt-service burdens are increasing. Steep increases in private sector debt, in particular non-financial corporate debt in emerging markets, have further increased countries' vulnerabilities to external shocks and capital flow reversals.

67. Rising debt-service costs diminish fiscal space for countercyclical measures and for investments in long-term structural transformation and the Goals. This is a major concern in the light of large, unmet investment needs for the Goals. It calls for a range of national and global actions in the following three areas: creating additional fiscal space; preventing debt crises; and advancing the policy agenda on debt restructuring.

68. Increased domestic revenue mobilization and more effective spending, along with ODA, can help countries to scale up public investment to achieve the Goals while containing debt vulnerabilities. But the fundamental tension will likely remain in many developing economies, especially those with high debt burdens, in particular in the light of growing risks due to COVID-19. Debt swaps, such as the proposal by the Economic Commission for Latin American and the Caribbean to swap some of the external debt of the Caribbean for annual payments into a resilience fund, can be a source of funding for additional investments in the Goals. Piloting of this and similar initiatives should be considered.

69. Debt sustainability also depends on the effective use of borrowed resources. There is merit to exploring options that better identify fiscal space for productive investments in the Goals. A balance sheet approach that clarifies how borrowed resources are used, taking into account public assets created, can contribute to better understanding of the impact of investment on fiscal revenue and GDP. Investments in the Goals that boost productive capacity in countries can help to generate revenue to meet debt service requirements when investment projects are carefully selected, sustainably financed and effectively executed. The *Financing for Sustainable Development Report 2019* also looked at the role that well-managed, fiscally sustainable and transparent national and regional development banks can play, building upon the call for strengthening them in the Addis Ababa Action Agenda.

70. Effective debt management is essential to mitigating risks. Strengthening debt management through technical assistance and capacity-building will help countries to manage debt more effectively. Despite some progress, debt management capacity and transparency need to be continually enhanced in the light of the growing complexity of the creditor landscape and debt instruments. While the primary responsibility for debt transparency lies with debtors, creditors share the responsibility for making the terms and conditions of lending public, straightforward and easy to track. To help borrowers to avoid debt traps, official creditors should pay appropriate attention so as to not adversely affect debt sustainability in borrower countries, including by providing financing on more concessional terms and ensuring that lending practices are fully in line with sustainable, responsible financing practices.

71. Debt vulnerabilities have increased in many cases owing to climate and environmental shocks. Innovative mechanisms, such as State-contingent debt instruments, would allow debtor countries to postpone payments in the event of specified shocks. Despite a measure of analytical work on such loans, there has been limited uptake on the part of private or official creditors. Official creditors can take the lead in using such instruments and promoting their uptake, which is essentially a contractual approach to creating "breathing space" for a borrowing country in periods of stress, thus helping to prevent debt distress.

72. Experience in recent years indicates that the new landscape has complicated and lengthened the process of debt restructuring. This raises the social cost of debt crises, including for the poorest citizens. Further work in the international community is thus warranted in order to revisit existing mechanisms and arrive at a fair, effective and timely international process for debt resolution. Progress in all these areas is needed if countries are to achieve the Goals by 2030. The United Nations can provide a forum for informal and inclusive dialogue among all stakeholders that considers policy options for financing investments in the Goals while maintaining sustainable debt.

Addressing systemic issues

73. The international monetary system remains vulnerable to volatility and contagion, such as the recent financial volatility as a result of COVID-19, as well as risks from increased leverage. Whether these have systemic stability implications depends on the nature of international financial linkages and the timeliness and effectiveness of policy responses.

74. The financial reforms undertaken in response the 2008 financial crisis have been instrumental in bolstering the safety of the banking system and addressing the risks, channels and mechanisms related to the crisis. Regulatory and supervisory bodies should lead by example in promoting the timely, full and consistent implementation of remaining reforms. This will support a level playing field and avoid regulatory arbitrage.

75. However, as is normally the case, changes to the financial regulatory system after a crisis tend to be focused on preventing a recurrence of past problems, while future shocks may have different causes and transmission channels. A retreat by some from multilateralism makes coordinated responses to global crises more challenging.

76. Non-bank financial intermediaries are undertaking an increasing share of financial intermediation, potentially generating new risks that should be understood and addressed. Countries should continue to step up efforts to track and regulate financial intermediation on the basis of the function that it performs rather than the type of institution involved, including with regard to financial technology. The financial instruments described in the report, while helping to finance the 2030 Agenda, can also create pockets of leverage that present economic and social risks. The Task Force will aim to explore these relationships and ways to address the risks in future reports.

77. Financial technology is contributing to the growth of non-bank financial intermediation and is blurring the lines between settlements, software, credit intermediation and risk taking. A challenge for policymakers is to manage risks without impeding innovation. There is growing experience with regulating financial technology, and policymakers can build upon the experiences of their peers to inform their decision-making.

78. One area of rapid innovation is in digital payments and currencies. Cashless economies are on the horizon. Digital payments, such as mobile money, can reduce costs and promote financial inclusion. Both the private sector and central banks are also proposing digital currencies. These could have efficiency benefits, but also have the potential to fundamentally alter the balance of risks and incentives in national financial systems, including financial integrity, stability and sustainable development. Regulations on the operation of private digital currencies should be carefully considered in each jurisdiction, or regional currency zone, with policymakers considering financial stability, financial integrity, consumer protection, privacy and broader impacts on sustainable development. Central banks considering the issuance of their own digital currencies should design systems that are well adapted to national contexts and contribute to sustainable development outcomes.

79. Policymakers are also beginning to pay more attention to the interaction between climate change and the financial system. There is increasing recognition that climate risk is financial risk that needs to be incorporated into risk-based regulatory frameworks, building upon the advances made in voluntary disclosures. Policymakers should adopt global mandatory financial disclosures on climate-related financial risk to support the long-term stability of financial systems. Some countries are also reforming their financial systems and regulation to ensure both financial stability and alignment with all aspects of the 2030 Agenda. Policymakers should also consider developing further policy frameworks and regulatory efforts to promote sustainable financial systems. Regulations have an impact on incentives and can encourage positive change in behaviours, such as promoting financial inclusion and reducing investment in climate change-inducing or other environmentally risky activities.

80. The international community has brought together combinations of national and international policies to mitigate risk and cushion financial shocks when they do occur. These policies need constant adjustment if they are to provide sufficient protection against financial crises. New stresses on financial systems can arrive from unexpected sources, much as the spread of COVID-19 in the first quarter of 2020 resulted in a flight to safety and widening spreads on bond yields of developing countries. Countries should explore coherent integrated policy frameworks that bring together monetary, exchange rate, macroprudential, capital flow management and other policies, as part of integrated national financing frameworks, to manage excess leverage and volatility in domestic and cross-border finance. Effective use of these policies can increase policy space and reduce the need for countries to resort to emergency financing from the global financial safety net. Meanwhile, Member States need to work to fill gaps in the global financial safety net, with stronger regional financial arrangements where they are insufficient.

81. Finally, Member States should consider whether governance arrangements at various international institutions need further reform, especially those that have not undertaken reforms in many years. The ambitious 2030 Agenda requires institutions that allow careful consideration of coherence and coordination. The Task Force has become a mechanism to improve inter-agency coherence.

Science, technology, innovation and capacity-building

82. To achieve the Goals, countries at all stages of development must increase their capacities in science, technology and innovation. New practices and technologies need to be developed and transferred where they are most needed to strengthen productivity growth, lower the environmental impact and reduce inequalities between and within countries.

83. The Task Force, in its report, complements the analysis of the role of digital technologies by reviewing the progress in implementing the commitments on technology and capacity-building in the Addis Ababa Action Agenda.

84. While there has been important progress in most science, technology and innovation indicators, large gaps remain between developed and developing countries, particularly for the least developed countries. The gender gap in tertiary education has shrunk in most countries, but it has increased in the least developed countries and remains large in terms of Internet access overall. Knowledge-sharing and collaboration should be strengthened, including by supporting education systems, improving affordable access to the Internet and further increasing international cooperation in science, technology and innovation.

85. New and emerging technologies have spread rapidly, supporting progress in achieving the Goals and spurring financial innovation and inclusion. Over time, the impact of these technologies will affect all sectors and countries. All countries need

to develop and strengthen capacities for technological adaptation and innovation, in line with the development of national innovation systems and regulatory frameworks, supported by an enabling international environment.

86. Both the Technology Facilitation Mechanism and the Technology Bank for the Least Developed Countries, two key outcomes of the Addis Ababa Action Agenda in support of science, technology and innovation, have been set up and become operational over the past few years. Continued joint efforts by Member States, supported by the United Nations system, can help these mechanisms to support developing countries' adaptation of new technologies for sustainable development.

Data, monitoring and follow-up

87. The rapid spread of digital technologies has caused a data revolution that holds great opportunities, as well as challenges, for sustainable development. Nonetheless, not all countries have the capacity to harness new data sources, and questions remain around data security, access and privacy.

88. Many countries still lack a minimum set of quality traditional data, including basic census and civil registration data. At the same time, the emergence of a new and evolving data ecosystem is challenging the traditional role of official statistical systems as the predominant producers of statistics and providers of information for policymaking.

89. National statistical systems need to modernize, and the capacities of their member entities need to be strengthened, to enable them to fill development data gaps and establish their new role in a changing data ecosystem. This requires a step change in resource mobilization for statistics. New financing mechanisms can help to pool external funding from different sources, mobilize additional funding and increase coordination. They should support the strengthening and modernization of national statistical systems and be aligned with countries' national statistical plans.

90. Many Governments are looking beyond legal frameworks for data security and privacy and beginning to review national data strategies and new institutional set-ups, including a potential role for national statistical offices as data stewards. For these efforts to succeed, Governments should view data as a strategic asset for development and task their national statistical systems, in collaboration with other government entities, with actively using and developing this asset, providing them with the capacity to do so.

91. The statistical community has continued to work on strengthening methodologies for the provision of high-quality, timely and disaggregated data. In addition to the Goal indicators, national and subnational indicators can support Goal monitoring and policymaking and help to identify financing gaps and constraints as part of an integrated national financing framework. The Goal indicator framework underwent a comprehensive review in 2020, and countries, regions and cities have started to design their own place-specific indicator sets. Notwithstanding progress, there is still a need to further develop and establish concepts, definitions and methods for gender statistics.

92. In view of the limitations of GDP and GDP per capita for measuring sustainable development, efforts are under way to provide statistical guidance on the measurement of well-being, as called for in the Addis Ababa Action Agenda. Based on this guidance, national accounting frameworks will need to be integrated with different measures of well-being to better reflect all three dimensions of development – economic, social and environmental.