United Nations E/FFDF/2023/2

Economic and Social Council

Distr.: General
14 March 2023

Original: English

Economic and Social Council forum on financing for development follow-up
17–20 April 2023
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 *Financing for Sustainable Development Report 2023* of the Inter-Agency Task Force on Financing for Development, provides an assessment of progress made in implementing the financing for development outcomes. In its report, the Task Force draws on the expertise, analysis and data collected by more than 60 of its members. It analyses the global economic context and its implications for sustainable development, sustainable industrial transformations and progress in the seven action areas of the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and relevant data issues.

23-04689 (E) 270323

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I. Overview and key messages

1. In March 2021, the Inter-Agency Task Force for Financing for Development warned of a global divergence that could lead to a lost decade for development. By 2022, those risks had materialized: a great finance divide was translating into a development divide. Over the past 12 months, sharp increases in food and energy prices and rapidly tightening financial conditions further exacerbated challenges for many countries, increasing hunger and poverty and reversing progress on achieving the Sustainable Development Goals. The global macroeconomic outlook remains highly uncertain, and is particularly bleak for many of the poorest and most vulnerable countries faced with growing debt service burdens and tight fiscal constraints. In today's extremely challenging global macroeconomic context, financing and sustainable development prospects are diverging even more sharply.

2. If left unaddressed, the finance divide will translate into a lasting sustainable development divide. While Sustainable Development Goal financing needs are growing, development financing is not keeping pace. There is a continued need for immediate and increased international support for vulnerable countries, including many least developed countries, African countries and small island developing States. At the same time, low levels of investment, in particular in many developing countries, are entrenching the development divide. Delaying investment in sustainable transformations would put the 2030 Agenda for Sustainable Development and climate targets out of reach and exacerbate financing challenges down the line.

3. All stakeholders must maintain a long-term focus, while addressing near-term crises. Short-term action has an impact on long-term development. The multiple crises can shorten the time frames for decision-making by policymakers, investors, businesses and individuals. The crises once again underline the need for a long-term focus on resilient, sustainable and inclusive development. Sustainable and productive investment can transform and help to diversify economies, and enhance resilience to shocks, including inflationary supply side shocks. As laid out in the *Financing for Sustainable Development Report 2022*, such investment also enables countries to mobilize resources over time and better service debt. This is why the *Financing for Sustainable Development Report 2023* focuses on sustainable transformations, including a road map for Governments, along with changes in the way finance works.

4. Action at the international and national levels is needed to scale up Sustainable Development Goal financing. National and global policy frameworks shape incentives, affect risks and influence financing needs and flows. Recent global shocks have placed enormous pressure on global institutions and governance. Enhancing relevant global policy frameworks is critical to enabling progress on financing. On their own, however, reforms to the international system will not deliver sustainable development. Countries need to chart their own paths to achieve the Goals. This is embodied in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development and the revitalized global partnership for sustainable development, which give each country primary responsibility for its own development but task the international community with providing the conducive international enabling environment and support.

5. The series of global shocks and overlapping crises have increased the risk of further geoeconomic fragmentation and raised the urgency for reform. Nevertheless, they have also led to momentum for reform and calls for rapid institutional change. In its *Financing for Sustainable Development Report 2023*, the Task Force sets out its recommendations to take advantage of this moment and undertake a concerted effort to finance the timely realization of the Sustainable Development Goals. Three key messages emerged from the Task Force's analysis and formed the basis of recommendations linked to all areas of the Addis Ababa Action Agenda, as summarized below.

6. First, development cooperation and investment in the Sustainable Development Goals must scale up immediately to boost sources of international development cooperation. Demands on international development cooperation are higher than ever. Climate- and debt-vulnerable countries require more concessional resources. Humanitarian aid and development assistance is needed to curb growing food crises. Climate finance is not keeping pace with the increasing impact of climate change. Official development assistance (ODA) providers need to meet their commitments and all sources of development cooperation must be scaled up. There is also a need to quickly and adequately support countries in debt distress, with the ultimate objective of reducing their debt stock and providing long-term relief.

7. Concerted efforts are needed to scale up investment in the Sustainable Development Goals and climate action. Public and private investment remains subdued, compared with historical levels, especially in most developing countries. The significant scale-up of investment in energy transition, a bright spot, has remained concentrated in developed countries and China. This dearth of financing motivated the Secretary-General to call for a Sustainable Development Goal stimulus to significantly increase affordable long-term financing for development in areas such as infrastructure, education, social protection and sustainable structural transformation.

8. Second, the international financial architecture must be improved as countries seek to remake international organizations, norms, rules and frameworks. The coronavirus disease (COVID-19) pandemic contributed to the urgency to revitalize the institutional architecture to match the ambition of the 2030 Agenda. Discussions on reforms of the international architecture are ongoing throughout the international system, including in informal country groupings, such as the Group of 20, the Group of 7 and the Bridgetown Initiative. They are on the agenda of the World Bank and International Monetary Fund (IMF) boards, Organisation for Economic Co-operation and Development-based bodies and elsewhere. At the United Nations, they are part of Our Common Agenda discussions and the financing for development process. These efforts to remake the institutions and norms of the financial architecture and related issues encompass the full set of action areas of the Addis Ababa Action Agenda, including:

(a) Creating internationally agreed sustainability norms for private investment and business activities (*Financing for Sustainable Development Report 2022*, chap. III.B);

(b) Evolving the scale and mission of the development bank system (chap. III.C);

(c) Setting up a loss and damage fund on climate change after decades of discussion (chap. III.C);

(d) Urgently improving mechanisms for addressing debt challenges, such as through the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, State-contingent debt instruments and other mechanisms (chap. III.E);

(e) Scaling up and accelerating the channelling of the historic special drawing rights allocation to countries in need, including through IMF funds and development banks (chap. III.F);

(f) Rewriting international tax norms, in particular rules for taxing digitalized and globalized business and digital assets (chap. III.A);

(g) Intensifying multilateral dialogue on current multilateral rules and agreements on investment, trade (chap. III.D) and technology (chap. III.G) to ensure a level playing field, balance national interests and reduce negative spillovers from national policies.

9. These processes hold the potential to realizing a more coherent and effective international architecture. Discussions and institutional reform processes are ongoing. They hold the potential to close some gaps in the international architecture, align it better with the needs of the twenty-first century and scale up financing for the Sustainable Development Goals and climate action. However, if they proceed piecemeal, remain partial and do not take the Goals fully into account, the architecture will remain fragmented and not fit for purpose to deliver sustainable development. The financing for development process at the United Nations provides an opportunity to bring these different strands together. The upcoming Economic and Social Council forum on financing for development follow-up will be followed by the Sustainable Development Goals Summit and High-level Dialogue on Financing for Development in 2023, and the Summit of the Future and the biennial summit in September 2024. To make the most of these events, discussions should build on one other, as part of a single process aimed at ensuring coherence of reforms, and fully aligning them with the Goals and climate action.

10. Third, national action is required to accelerate national sustainable industrial transformations. Reforms in the international architecture and a global investment push must be matched with and supported by coordinated national action. The Sustainable Development Goal stimulus will not succeed if national policies do not reignite investment in the Goals domestically.

11. Countries need to strengthen strategic approaches, including through a new generation of sustainable industrial policies and integrated financing frameworks. Industrialization and structural transformation have been historic engines of growth, job creation and technological advancement. The current revival of industrial policies – a response not only to the climate crisis and the COVID-19 pandemic, but also to geostrategic concerns – opens a window of opportunity for countries to pursue sustainable industrial transformations, namely, to build domestic productive capabilities to achieve low-carbon transitions and create decent jobs and gender equality, along with productivity and economic growth. On a national level, this includes the following:

(a) A coherent sustainable industrial policy strategy, aligned with a country's overall vision. Sustainable industrial policies should be linked closely to national sustainable development strategies, which can be supported by integrated national financing frameworks. They need to be context-specific, responding to a country's binding constraints and institutional frameworks. Integrated planning and financing, such as through integrated national financing frameworks, is essential so that countries will be ready to tap into a revamped and more supportive global system;

(b) Building a dynamic domestic business sector. An enabling business environment is no longer sufficient; countries also need to build an enabling sustainable business environment, which includes investment in infrastructure, macroeconomic stability, overcoming credit constraints, incentivizing sustainable behaviour (e.g., through carbon pricing) and targeted policies to support firms and address investment constraints;

(c) A more expansive toolkit. Because sustainable industrial transformations need to be directed to the Sustainable Development Goals, they require a more expansive toolkit to create and align incentives for investment in sustainable development;

(d) Support for vulnerable groups that may lose economic opportunities in transitions. This underscores the importance of universal social protection systems, as well as targeted support, training and related initiatives, and a focus on rural areas where many of the poor live.

12. Action across the Addis Ababa Action Agenda to invest in sustainable industrial transformation can include the following:

(a) Creating investment opportunities, such as in activities critical to the low-carbon transition;

(b) Adopting regulatory measures to support the development and adoption of technologies;

(c) Aligning tax and fiscal systems with sustainable industrial transformation goals, while increasing revenue to finance public investment;

(d) Combining supply-side instruments, such as investment incentives, with demand-side strategic public procurement, as well as setting appropriate technology standards to encourage domestic firm development, sustainable innovation and, ultimately, competitiveness;

(e) Using public development banks and other public funds to support basic research and development, early-stage innovation and broader investment in the Sustainable Development Goals;

(f) Shaping the private financial sector through regulatory and other measures to encourage long-term financing and aligning it with sustainable development.

13. Many developing countries will need capacity and financial support. The international community can support countries' efforts through project-specific support, for example, through blended finance instruments aligned with national priorities, and capacity support.

14. The world is at a crossroads. The risk is further geoeconomic fragmentation and an erosion of multilateralism and a rules-based order, with the most vulnerable and least powerful countries most affected. The opportunity is to reform and strengthen multilateralism through an international financial architecture that delivers on the ambitious global goals set out in 2015, along with national action to invest in sustainable transformations.

15. With many systematic reform processes ongoing, the international community needs to deliver on the outstanding promise of the Addis Ababa Action Agenda to create a coherent and mutually supporting world trade, monetary and financial system, while updating commitments to reflect the changing world. The present report identifies numerous steps that policymakers can take towards building a sustainable and just world.

II. Global economic context and its implications for sustainable development

16. The global economic outlook remains fragile amid a highly challenging environment. While some of the clouds looming over the global economy may be lifting, the baseline outlook is subject to a high degree of uncertainty. Task Force members are projecting a slowdown in global growth in 2023. Downside risks include more persistent-than-expected inflation leading to a wage-price spiral, a sharp and disorderly tightening of global financial conditions and a further escalation of geopolitical tensions.

17. While inflation is expected to have peaked, monetary policy will remain tight in most countries. The moderation in global commodity prices and China's reopening

are expected to ease global price pressures going forward. However, headline inflation is expected to remain elevated in many countries, fuelling concerns that inflation expectations could still become de-anchored. In this environment, central banks are likely to maintain tight monetary policy stances.

18. Countries are facing difficult monetary and fiscal policy trade-offs. Elevated inflation has prompted central banks across the world to embark on aggressive monetary tightening, notwithstanding incomplete economic recoveries from the COVID-19 pandemic. The rapid tightening of global financial conditions has also fuelled debt sustainability concerns in a number of developing countries. High borrowing costs will be particularly damaging for countries with already large debt service burdens and foreign currency-denominated debt. Public finances of countries that rely heavily on commodity imports have been particularly strained by the increase in food and energy prices. As fiscal consolidation pressures intensify, there is a risk of significant delays or cutbacks to investment in sustainable development, including in climate action. Moreover, fiscal retrenchment often entails cuts to social expenditure, which disproportionately hurts the most vulnerable populations, including women and children.

19. Investment prospects in most developing countries remain weak, raising the risk of deeper and more protracted scarring. Since the onset of the COVID-19 pandemic, many developed economies have announced large fiscal packages, which include increases in public investment, in order to support their economic recoveries. By contrast, developing countries have been more constrained, with many of the poorest forced to cut spending in areas such as infrastructure and education. For the developing countries, a prolonged period of subdued investment is exacerbating already large climate and Sustainable Development Goal investment gaps.

III. What will it take? Financing sustainable industrial transformation

20. Scaling up investment in sustainable industrial transformation can be a key to rescuing the Sustainable Development Goals. Industrialization and structural transformation have been historic engines of economic and productivity growth, job creation and technological advancement and have laid the foundation for poverty reduction and a sustained mobilization of domestic resources. A vibrant domestic private sector engaged in dynamic activities has been at the heart of sustained progress and development in most countries. Countries’ policy efforts to spur industrial transformations have a mixed record, not least in terms of their impacts on equity, the environment and sustainable development more broadly. Many lessons can be learned from both failures and successes.

21. In response to a series of major shocks and crises, the state of domestic productive capacities has again become a central concern of policymakers around the world. The great recession of 2007 and 2008, the ongoing climate crisis, the COVID-19 pandemic and, most recently, the fallout from the war in Ukraine have all contributed to a revival of industrial policies. Countries have taken steps to support low-carbon transitions, create decent jobs, promote digitalization and enhance the resilience of their economies to economic and non-economic shocks. Industrial policy measures more than doubled between 2009 and 2019, with much of the growth occurring in developed countries.

22. The revival of industrial policies provides an opportunity to achieve sustainable industrial transformations. The Sustainable Development Goals give today’s efforts at industrial transformation a desired direction, which has to be underpinned not only by economic growth, but also by growth that can be sustained over time, is inclusive

and creates decent jobs, and that is environmentally sustainable and supports rapid decarbonization. A new generation of sustainable industrial policies has to reflect these sustainable development priorities.

23. Sustainable industrial transformations require scaled-up, coordinated and targeted public and private investment. They require investment by the private sector in innovation, energy transition and other areas, and affordable access to finance to fund this investment. Sustainable industrial transformations also require public investment in sustainable infrastructure, human capital and other public goods to overcome supply side bottlenecks and crowd in private investment, and the fiscal space to maintain such investment. Because sustainable industrial transformations are directional, they also require a more expansive toolkit to create and align incentives for sustainable investment: (a) public leadership and coordination to create investment opportunities, such as in activities critical to the low-carbon transition; (b) demand-side or regulatory measures to support development and adoption of desirable technologies; and (c) the alignment of tax and fiscal systems and all other relevant policy frameworks with the Sustainable Development Goals.

24. Sustainable industrial and financing policies, both national action and international support, are key to facilitating such transformations. Relevant policy options, with a specific focus on financing policies that are pertinent to the action areas of the Addis Ababa Action Agenda, are as follows:

(a) Countries should have strong ownership over the industrial policy formulation process and relevant stakeholders (e.g., private business, labour and civil society) should be involved in inclusive consultation and decision-making processes. Sustainable industrial transformations depend on the buy-in and coordinated actions of many stakeholders;

(b) Policymakers need to develop a coherent sustainable industrial policy strategy, aligned with a country's overall vision. Sustainable industrial policies should be linked closely to national sustainable development strategies and plans, which can be supported by integrated national financing frameworks. They need to be context-specific, responding to a country's binding constraints and institutional frameworks;

(c) Countries must provide support to vulnerable groups that may lose economic opportunities in industrial transformations. This underscores the importance of universal social protection systems;

(d) To reduce the cost of capital for firms, countries should continue to improve domestic enabling environments, thus reducing investment risks, and financial sectors, in order to lower the cost of capital domestically, and adopt supportive macroeconomic policies;

(e) Public development banks are a major source of long-term financing and can help to address financing gaps for sustainable transformation. They can provide funding for new, smaller or innovative firms, or for priority sectors. Public development banks also develop specific expertise and market intelligence, given that they can fill both knowledge and resource gaps;

(f) Investment incentives remain the most prevalent sustainable industrial policy instruments and can be complemented by demand-side measures and appropriate technology standards to spur the development and adoption of sustainable production processes. They also need careful policy design to manage fiscal impacts and avoid capture by special interests, for example, by linking support to success criteria;

(g) Many developing countries will need capacity and financial support. The international community can support countries' efforts through systemic reforms in the international financial architecture, as well as project-specific support, such as through blended finance instruments aligned with national priorities;

(h) Developing countries also need to preserve existing and, in some areas, regain lost policy space to pursue sustainable industrial policies. There are risks of rising fragmentation in the global economy and to a fair and open trading regime. Efforts to address climate change and the Sustainable Development Goals, and recent industrial policy announcements in some major economies have led to calls to increase multilateral dialogue and potentially adapt current multilateral rules. An uneven playing field and the finance divide must not undermine developing countries' ability to achieve sustainable industrial transformations.

IV. Key messages and recommendations of the *Financing for Sustainable Development Report 2023*

Domestic public resources

25. Financial and economic stress, high debt burdens and tight fiscal spaces have stretched public finances in most countries, and domestic public resources remain the main way in which Governments can support the Sustainable Development Goals. The vast sums mobilized and spent by Governments worldwide and the minutiae of domestic policymaking or international tax norm-setting often obscure the impacts of domestic taxation and spending on people's welfare. Domestic public resources contribute directly to the achievement of the Goals through the financing of public goods and services. They also contribute by reducing inequality through redistribution, changing the behaviours of households and businesses by setting incentives, and smoothing the macroeconomic cycle through countercyclical policy. The fiscal system is an essential tool of sustainable structural transformation.

26. Tax system capacity and the broader capacity of the public sector in general reinforce each other, strengthening the social contract. Domestic tax systems are foundational to the social contract in which taxpayers contribute to society and Governments provide valuable public goods and services. A virtuous circle can be sustained: investment in tax capacity supports increased spending on public goods and improved services, which contributes to compliance by taxpayers. By building trust through the effective governance of revenue and expenditure systems, Governments will also be better able to realize other public policy goals. These efforts take time and sustained political will in order to bear fruit.

27. Recent changes to the global environment, in particular the spike in energy prices, may suggest adaptations to revenue policies. High fossil fuel prices, driven by the war in Ukraine, are creating windfall profits. To address these challenges, the following is recommended:

(a) Given the imperative to address climate change, Governments should allow high energy prices to incentivize a reduction in fossil fuel use while compensating poorer households;

(b) Windfall profit taxes can be part of effective tax systems and realized resources can help to address equity challenges from high prices, including by assisting the vulnerable.

28. Tax systems and public spending are powerful instruments to incentivize and support sustainable development. Accomplishing a sustainable structural transformation will require active public policies and interventions. Most tax instruments affect behaviour; the challenge is to align incentives with sustainable

development and national goals. With this in mind, the following action could be taken:

(a) Budgets and tax policies should be aligned with sustainable development priorities, with coherence across policy areas to be achieved, for example, through the use of integrated national financing frameworks;

(b) Transparency in tax expenditure, procurement and budgets can contribute to accountable public finance and enhance the effectiveness of public resources towards achieving the Sustainable Development Goals;

(c) While expenditure can be used strategically, it should also be tied to performance, time-bound and re-evaluated regularly and in the light of new global minimum taxes;

(d) Procurement policies should be intended to promote the achievement of the Sustainable Development Goals and include effective monitoring and enhanced governance to prevent corruption.

29. Countries should continue to strengthen efforts on gender-responsive budgeting, while also developing gender-responsive tax systems. Tax systems have significant gendered impacts. The fiscal system should be analysed in its entirety to understand the full gender impact of fiscal policy. The following is recommended:

(a) Given gendered wealth gaps, capital income should be taxed at least at the same rate as labour income;

(b) The international system can be called upon to develop methodologies and guidelines for analysing implicit gender bias in tax policies and systems, which can be incorporated into planning tools;

(c) Fine-grained studies of specific taxes, the tax mix and tax administration can help to identify gender-specific barriers and gender-responsive approaches;

(d) Taxpayer information should be collected in ways that allow disaggregation to facilitate more comprehensive analysis of the gender impacts of tax systems and specific tax policies.

30. Policymakers should address the tax-related risks and opportunities of digitalization across three different dimensions to maximize effectiveness and fairness:

(a) Digital technology can simplify and improve tax administration;

(b) Tax policy should be coherent with national approaches to digital assets to enhance information available to revenue administrations for tax compliance while respecting desired privacy levels;

(c) Each country should decide on its approach to taxing digitalized business models, which could include using automated digital service taxes or adopting pillar one of the Organisation for Economic Co-operation and Development/Group of 20 inclusive framework, based on their national context and the potential revenue and economic impact.

31. The international tax system and financial integrity policies should serve all countries. In order to remedy the challenge of developing countries being left out and suffering from illicit financial flows, the following is recommended:

(a) International tax and financial transparency instruments should focus on the needs and realities of developing countries, with mechanisms to ensure that the least developed can benefit from international cooperation, such as more capacity-building and non-reciprocal information exchange;

(b) All countries should come together to consider good mechanisms to enhance fully inclusive and effective international tax cooperation;

(c) States should adopt tools expeditiously that can assist in preventing and combating illicit financial flows, such as creating verified registries of beneficial ownership information for all legal vehicles.

32. Continued progress in domestic resource mobilization requires investment in improved tax administration and consistent efforts to build citizen trust in the State. The cost of administrative improvement is not very high and has large financial returns, and donors can increase support in this area for the poorest countries. The following action is recommended:

(a) Governments should ensure that tax administrations have sufficient resourcing, autonomy and independence from political interference;

(b) Tax administrations should institute accountability and transparency practices, in particular by providing services to taxpayers and executing enforcement. A rules-based decision-making framework with high levels of integrity is needed;

(c) Administrations need effective managers, agile management models and sound organizational designs for the effective delivery of strategies, as well as sound results-based management approaches;

(d) Sustained political will is needed for successful tax reform.

Domestic and international private business and finance

33. Private business activity, investment and innovation are major drivers of productivity, employment and economic growth. However, efforts to increase private investment in the Sustainable Development Goals in developing countries under way even before 2015 have not shown sufficient progress. Unlocking private business and finance is one of the greatest challenges in achieving sustainable development.

34. Industrial policies are intended to turn this around by stimulating investment and business activity aligned with the Sustainable Development Goals. This includes policies that reduce risks for all firms by strengthening the enabling environment as instruments that target sectors or areas for investment. Ultimately, policy choices will be country-specific and tied to national priorities, but they should support the Sustainable Development Goals and areas of competitiveness and dynamism that can stimulate inclusive and sustainable growth.

35. While much of the discussion of investment policies has focused on attracting foreign investment, analysis highlights the importance of developing a dynamic domestic business sector. Governments can create a thriving sustainable business environment. In addition to addressing political and macroeconomic risks, this includes:

(a) Strengthening Sustainable Development Goal-aligned legal and regulatory frameworks;

(b) Implementing or strengthening competition policies to ensure that firms do not stifle innovation, aggravate inequalities and poverty, or impede environmental goals;

(c) Providing infrastructure services essential for sustainable development and the functioning of the economy, given that, notwithstanding many initiatives in this area, infrastructure gaps remain considerable between developed and developing countries;

(d) Addressing financial constraints, in particular affecting micro-, small and medium-sized enterprises, such as by harnessing technological advancements.

36. Building an enabling business environment, however, may not be sufficient to mobilize investment at the speed and scale required to achieve the Sustainable Development Goals, in particular in countries most in need and in sectors key for sustainability. Identifying the types of financial instruments most likely to deliver results given the local context will require a proper assessment of the key constraints to investment. A range of policy tools that can help to overcome some of the impediments to private investment.

37. Well-developed infrastructure plans would also help to achieve the Sustainable Development Goals and provide an enabling environment. They should include adequate stakeholder consultations and incorporate climate impacts, disaster risk assessments and resilience, as well as gender assessments, to provide a long-term vision. This vision will allow countries to avoid having costly stranded assets, such as coal-fired power plants, or essential infrastructure assets unable to function during and after disasters.

38. Major changes are also required in the way in which private business and finance works. The need for a systematic change is evident from the lack of progress made in many sustainable areas in which companies have a large impact.

39. Business leaders are increasingly acknowledging that taking sustainability factors into consideration will be necessary to achieve long-term financial success and ensure the future viability of their companies. Addressing the impact of business activities on the Sustainable Development Goals and climate action requires the following:

(a) Strengthening company sustainability disclosure. Reporting requirements for large corporates need to include a common set of sustainable metrics, regardless of their materiality impact;

(c) Designing policy and regulatory frameworks in support of sustainable finance, through regulations and/or policies that better link profitability and sustainability. This includes public policies that support long-term decisions, such as pricing externalities and phasing out harmful subsidies. In addition, corporate governance models need to be adjusted to address the persisting short-termism in capital markets and better align internal incentives with the Sustainable Development Goals;

(c) Making sustainable investing more credible, including by fixing sustainability ratings;

(d) Requiring investment advisers to ask their clients about their sustainability preferences, along with other information that they already request, and minimum standards are needed for investment products to be marketed as sustainable.

International development cooperation

40. COVID-19, the war in Ukraine, food and fuel crises, and the climate crisis are placing an unprecedented demand on international development cooperation. The global financing landscape has also changed since the adoption of the Addis Ababa Action Agenda, making it increasingly complex to navigate. Urgent action is needed to boost all sources of international development cooperation.

41. ODA rose to its highest level in 2021, underpinned by support for the COVID-19 pandemic response. However, ODA remains below commitments amid rising demands. Climate- and debt-vulnerable countries need more concessional resources

and grants, while blended finance and non-concessional resources of multilateral development banks can also help to meet the broader demand. All developing countries can benefit from South-South and triangular cooperation. At the country level, integrated national financing frameworks can help developing countries to lay out the best use of development cooperation resources and the appropriate mix of public and private finance to support their national sustainable development priorities.

42. The providers of ODA should strive to deliver on their financing commitments, focus on collective impact and improve the quality of such assistance. ODA has played a countercyclical role in response to successive crises, providing substantial additional support for the COVID-19 response. Bilateral providers can help to reshape the financing for sustainable development system in the light of shifting demands through the following:

(a) More than ever, ODA providers need to meet their ODA commitments, especially to least developed countries that face massive challenges and have significant needs. Against rising debt vulnerabilities, grants rather than loans should be prioritized for least developed countries and small island developing States, with multidimensional vulnerability criteria used in the allocation of ODA. Additional support for Ukraine and refugees must not come at the expense of cross-border ODA flows to other countries in need;

(b) Support for the social sectors during the COVID-19 pandemic should be sustained, which will also fortify preparedness for future crises. Pandemic preparedness should be strengthened, building on the experience of the Access to COVID-19 Tools (ACT) Accelerator and the COVID-19 Vaccine Global Access (COVAX) Facility;

(c) Curbing growing food crises requires both humanitarian aid to address immediate needs and development assistance to address the structural causes of food insecurity.

43. Multilateral development banks play a vital role in meeting heightened demand. The important role of multilateral development banks has been recognized through the Group of 20, the Sustainable Development Goal stimulus, the Bridgetown Initiative and others, with calls upon multilateral development banks to scale up lending to help to meet sustainable development challenges. In this regard, the following is noted:

(a) The Secretary-General has called for very long-term (30–50 years) lending with significant grace periods, with all lending aligned with the Sustainable Development Goals;

(b) Capital infusion and balance sheet optimization can help to expand multilateral development bank lending;

(c) A more concerted effort is needed to leverage the network of public development banks to meet growing demands.

44. While blended finance has the potential to leverage development finance resources to meet the growing demand for development support, a new approach is needed, as follows:

(a) Blending needs to be aligned with country priorities and part of broader national sustainable development strategies;

(b) The primary focus of all blended deals should be development impact, rather than quantity or degree of leverage;

(c) Analysis should always include measurement of the cost of blending versus other financing mechanisms, as well as ensure that the public sector is not overcompensating the private partner;

(d) Capacity development and transparency, participation and reporting are critical.

45. Complementing North-South efforts, South-South cooperation is helping developing countries to meet the heightened demand for development support. Efforts to measure South-South cooperation has advanced. South-led development banks and financial institutions play an increasingly important role.

46. Amid the climate crisis, climate finance is not keeping pace with the increasing impact of climate change and the widening financing gap. After failing to meet the $100 billion climate finance target in 2020, efforts are under way to set a new collective quantified goal on climate finance. On the positive side, the twenty-sixth session of the Conference of the Parties to the United Nations Framework Convention on Climate Change saw a landmark decision to set up a loss and damage fund after decades of discussion. Other expedient solutions are needed, such as the following:

(a) Multilateral development banks playing a leadership role in meeting climate finance targets;

(b) Country platforms such as the Just Energy Transition Partnership helping to accelerate climate action and investment.

47. Changes in the financing for development landscape call for a stronger shared understanding of the development effectiveness agenda. Since the adoption of the Addis Ababa Action Agenda, international development cooperation has seen significant shifts in terms of providers, modalities, focus and recipients. A shared understanding of development effectiveness principles by all actors can help policy and action at the country level. This is underscored by the following:

(a) COVID-19 demonstrated the importance of having in place risk-informed development cooperation;

(b) To enhance country ownership, donors should entrust more ODA to developing country Governments, including for priorities laid out in national plans;

(c) Encouraging the participation of non-State actors in national development cooperation forums can help to better reach marginalized and vulnerable communities;

(d) A shared understanding can be fostered of how development cooperation effectiveness principles can help all actors to influence policy and behaviour.

International trade as an engine for development

48. The war in Ukraine has affected the trade rebound from the COVID-19 pandemic and food supplies, the latter of which has spurred a global food crisis. The growth in global trade in goods and services slowed early in 2023, after reaching a historical high in 2022. Maritime costs remain elevated owing to continued shipping capacity shortages, underpinning higher prices of imported goods. High food and fertilizer prices, currency depreciations against the United States dollar and export restrictions have also affected food supplies worldwide. The Black Sea Grain Initiative helped to resume exports of Ukrainian grain amid the ongoing war, and World Trade Organization (WTO) members agreed to exempt food purchases by the World Food Programme for humanitarian purposes from export restrictions in order to address growing food insecurity.

49. The impact of the COVID-19 pandemic, digitalization and the climate crisis are bringing renewed attention to trade and industrial policy. Trade measures can help to build or improve the competitiveness of domestic industries, supporting industrial policies. There is renewed attention on the role of industrial policy in addressing the climate crisis amid rapid digitalization. However, developed countries need to consider the impact of industrial policies on poorer countries. There is a risk of a new industrialization divide, unless developing countries, especially least developed countries and landlocked developing countries, are supported. The following action is recommended:

(a) The international community needs to update multilateral rules on subsidies in the face of compounding challenges. More dialogue is needed to develop an agenda to better understand subsidy programmes and their consequences;

(b) Least developed countries and landlocked developed countries should be prioritized for support.

50. While there is progress on implementing trade facilitation measures, the trade finance gap continues to widen. Implementation of trade facilitation measures is uneven, with least developed countries requiring more support. Current global challenges have also widened the trade finance gap. To counter this, the following is recommended:

(a) Multilateral development banks and development finance institutions can help to scale up trade finance;

(b) Seeking opportunities in digital trade finance can help to narrow the trade finance gap.

51. Sustainable development considerations remain central to discussions in regional and multilateral trading systems. The sustainability focus of the new WTO Agreement on Fisheries Subsidies marks an historic achievement by WTO and will be instrumental in addressing harmful fisheries subsidies. Regional trade agreements have expanded, with environment and labour issues increasingly featured. Recent trends also show a new wave of sectoral agreements based on regulations mechanisms, such as mutual recognition agreements to make it easier to meet trade conformance testing requirements. More international investment agreements are being terminated than new ones signed, with newly concluded agreements featuring reform-oriented provisions. However, immediate international investment agreement reforms are needed to better support climate action, given that the current international investment agreement regime, based in large part on old-generation agreements, such as the Energy Charter Treaty, can constrain States from taking measures to combat climate change and protect the environment, resulting in a high risk of investor-State dispute settlement cases.

Debt and debt sustainability

52. Debt challenges show no signs of abating for many poor and vulnerable countries, threatening the achievement of the Sustainable Development Goals. While the global debt picture was varied in 2022, debt risks have risen in many of the poorest and most vulnerable countries. Debt overhang poses a significant obstacle to sustainable development. Addressing these challenges and improving the international financial and debt architecture remain an urgent priority.

53. Global public debt as a share of gross domestic product (GDP) fell in 2022, but debt dynamics diverged across countries, and debt vulnerabilities worsened in many developing countries. Globally, the debt-to-GDP ratio fell from its high in 2021 owing to the rebound in economic activity, along with increasing inflation (which lowers the

real value of debt). However, this number masks significant differences across countries, with non-fuel-exporting least developed countries and other low-income countries seeing further debt increases. Moreover, a range of debt indicators point to rising debt vulnerabilities and further diminishing fiscal space for investment in the Sustainable Development Goals and climate action. Some 60 per cent of countries that use the IMF/World Bank Debt Sustainability Framework for Low-Income Countries are assessed at a high risk of debt distress or in debt distress, twice the level from 2015. In total, 52 developing countries, home to half of the world's people living in extreme poverty, suffer from severe debt problems and high borrowing costs.

54. Rising debt vulnerabilities were driven by a confluence of global shocks. Most Governments adopted fiscal measures to mitigate the impact of rising energy prices following the war in Ukraine, and developing countries were also compelled to spend to mitigate the impact of higher food prices. Global monetary policy tightening contributed to increased debt vulnerabilities in developing countries by raising borrowing costs and reversing capital flows, leading to depreciating currencies in many countries.

55. The trend towards a more heterogeneous creditor landscape also continued. Over the past 25 years, least developed countries and other low-income countries have diversified their creditor base, with the share of borrowing from non-Paris Club official bilateral creditors and private creditors rising significantly. Those trends continued in 2021 and 2022. While providing a welcome source of new financing, the greater diversity of creditors has exacerbated creditor coordination challenges in the resolution of debt crises. Most recently, in the face of diminished access to bond markets, many least developed countries and other low-income countries returned to the syndicated loan market, which provides less transparent, shorter maturity funding, in turn increasing debt vulnerabilities.

56. With rising vulnerabilities and a more heterogeneous debt composition, effective public debt management is essential. Key priorities are the development and implementation of debt management strategies, domestic market development, improved information and transparency and enhanced capacity support for debt managers. The international community is scaling up the delivery of capacity development to least developed countries and other low-income countries in all areas of public debt management.

57. Both creditors and debtors share a responsibility to increase debt transparency. Borrowers should improve their legal frameworks and upgrade their systems of debt recording and reporting, capacity and information-sharing procedures, and creditors should promote transparent financing practices and refrain from confidentiality agreements.

58. Developing countries need support to enable them to scale up investment in climate action and the Sustainable Development Goals in the face of severe debt challenges. For countries that do not yet have unsustainable debt burdens but have limited fiscal space, innovative financing instruments, such as debt-for-climate swaps, could free up resources for sustainable development. For countries with unsustainable debt, early and deep restructurings are needed.

59. Amid rising debt vulnerabilities, the international debt resolution architecture needs major improvement to incentivize sufficiently deep and rapid restructuring. Early debt resolutions can help countries to avoid doing "too little too late". The more heterogenous creditor landscape adds complexity to the task. Enhanced collaboration among creditors, including bilateral creditors and private creditors, can contribute to comprehensive and appropriate debt treatment. Contractual improvements in debt agreements, such as enhanced collective action clauses, climate-resilient debt clauses

and majority voting provisions in loan agreements, should continue to help to strengthen the debt resolution framework.

60. The Common Framework should continue to improve and its coordinated approach expanded to other countries. Beyond finalizing the debt treatment of countries that have already applied for the Common Framework, several steps may strengthen implementation, namely, greater clarity on the steps and timelines of the process, debt service suspension for the duration of any negotiations, clarification on how comparability of treatment will be enforced, and an expansion of this coordinated approach to other countries. It is imperative that the debt architecture be further strengthened to achieve more predictable, timely and orderly processes for countries under the Common Framework and for those not covered by it.

Addressing systemic issues

61. The global financial and monetary systems are not designed to deliver the financing or stability needed to achieve the Sustainable Development Goals. The current global systems evolved piecemeal from a now-outdated architecture created at the end of World War II. The volatility of financial markets and capital flows complicates macroeconomic management and undermines the stability of currencies and exchange rates. These global systems remain ill-suited to deliver for all countries and have not kept pace with the changing economic and social environments. The existing rules and governance arrangements for financial institutions and markets have not incorporated in full sustainable development into its three dimensions (economic, social and environmental).

62. The cross-border nature of today’s challenges means that countries must work together to address these systemic issues, with the current set of crises increasing the urgency of doing so. In recognition of this, the Secretary-General called for the Sustainable Development Goal stimulus to provide immediate investment, but in doing so strengthen the global financial architecture. Political leadership will be needed to see through the scale of reforms that meet the ambitions of the Goals. Global governance systems should be more representatives of the current economic realities and guide the design and action of the international financial system to finance the Goals and climate action.

63. The global financial safety net urgently needs to be further strengthened and made fit for purpose. The safety net will require a larger total resource envelope to ensure effective insurance coverage for all countries and regions. To this end, the following is recommended:

(a) Governments should continue to explore ways to effectively utilize special drawing rights, such as encouraging unused special drawing rights to be more quickly rechannelled and discussing how to ensure the timely countercyclical issuance of special drawing rights when there is a long-term global need to supplement existing reserve assets;

(b) Regional arrangements could be enlarged and provide access to more countries with fewer preconditions;

(c) The international community could also explore ways to build on the success of bilateral swap arrangements.

64. The global community could work to smooth the transition away from a single national currency as the anchor of the global reserve system. Active discussions might need to advance, while digitalization and geoeconomic fragmentation evolve. A larger role for special drawing rights in buffering external adjustment or providing a flexible

source of finance to bolster IMF lending capacity would require revisions to the IMF Articles of Agreement.

65. To address risks from non-bank financial intermediaries, policymakers should ensure a coherent regulatory umbrella according to the principle of "same activity, same risk, same rules" by keeping the following in mind:

(a) This includes using the principle for regulatory frameworks for digital assets;

(b) The principle implies monitoring leverage, liquidity and capital buffers in non-bank financial intermediaries;

(c) Comprehensive, coordinated and consistent global standards are important to manage risks to users, markets and financial stability, and should be applied to financial technologies as they are applied to traditional financial intermediaries.

66. Addressing risks will help to curtail capital flow volatility, which can be further reduced through cross-border coordination on macroprudential and capital flow management policies. In this regard, the following is recommended:

(a) Governments should use the full policy toolbox to address the impacts of volatility;

(b) Source countries of capital flows should coordinate with destination countries to help to reduce volatility.

67. Regulators and central banks should continue to incorporate climate change and other environmental factors coherently into their financial regulations and operations. Given that climate change and biodiversity loss create financial risks and that the financial sector can exacerbate or help to mitigate climate and other environmental risks, it is essential to ensure coherent policy responses. The following is therefore recommended:

(a) Regulators should systematically incorporate climate and environmental risks into overall macroprudential financial stability frameworks and into macroprudential frameworks that promote the safety and soundness of individual financial institutions. International standards can be developed to support these efforts;

(b) Greening regulation, supervision and central bank operations require robust, comparable data, which can be accomplished by mandatory reporting against an agreed international reporting standard;

(c) Where needed to enable monetary and financial policies conducive to climate action, countries could consider providing the mandates for central banks and regulators to align their regulations and operations with the Sustainable Development Goals without prejudice to their price and financial stability mandates.

68. Central banks should also use the principle of "same activity, same risk, same rules" for addressing digital assets, while exploring the use of central bank digital currencies to address long-standing inefficiencies and oligopolies in payments. This should be done with the following in mind:

(a) Private providers of digital assets and digital asset services should be licensed, registered, regulated and supervised on the basis of the risks that they pose, regardless of what they call their asset or service. This might entail prudential requirements, transparent reporting and consumer protection rules;

(b) Central banks should make design decisions with central bank digital currencies that promote financial inclusion, increase payments competition and promote efficiency, while managing risks;

(c) The design of central bank digital currencies should also address interoperability early on in order to facilitate low-cost cross-border payments, while preventing illicit financial flows.

69. Member States should use the United Nations inclusive forums to enhance the coherence of global economic governance. As Governments prepare for the Summit of the Future in 2024 and a possible fourth International Conference on Financing for Development, in 2025, they can use the Economic and Social Council forum on financing for development follow-up and the High-level Dialogue on Financing for Development as decision points to take action.

Science, technology and innovation and capacity-building

70. Science, technology and innovations solutions have great potential to support progress in achieving the Sustainable Development Goals. Sustainable industrial policies can be a useful strategic approach to building technological capabilities and directed structural change. To achieve this, Governments need to create an enabling domestic environment for firms to enhance absorptive capacities. Economic incentives and support for firms are also crucial, as well as targeted incentives for specific technologies. The international environment, including intellectual property protection, also greatly influences a country's ability to build technological capabilities.

71. While the adoption of new and emerging technologies can promote sustainable development, they have also given rise to new risks and policy challenges. Governments need to be cognizant of recent technological trends, including understanding the differential impact that these technologies have on various segments of society. While increased digitalization has promoted greater efficiency gains, it has also been associated with broader trends of rising inequality and job polarization. Although financial technology has fostered financial inclusion, some innovations are generating risks to financial stability. In this context, institutions, policy and regulatory frameworks must keep pace with the rapidly evolving technological landscape.

72. The energy crisis presents an opportunity to accelerate the sustainable energy transition. In 2022, global spending on the energy transition rose to a new record, driven by the energy crisis and targeted policy support measures in a few large economies. However, current investment in sustainable energy sources remains insufficient to meet international climate goals. Most developing countries still face large shortfalls in sustainable energy investment. This is in spite of recent innovations in energy technologies and systems that are making it increasingly feasible to decouple economic progress from greenhouse gas emissions. There is a strong case for government policies to support the development and adoption of low-carbon and environmentally friendly technologies to catalyse the energy transformation. Stronger support from the international community and the private sector are also needed to mobilize sufficient financial resources towards climate investment.

73. The United Nations system has taken action on multiple fronts to boost countries' science, technology and innovation capacities. Such action includes technical and financial support, knowledge- and information-sharing, help with policy design, and the setting of norms and standards. Continued collaborative efforts of Member States, supported by the United Nations system, are needed not only to facilitate developing countries' adaptation of new technologies for sustainable development, but also to align finance, investment and technology for countries to recover better from the recent crises.

Data, monitoring and follow-up

74. Since the adoption of the 2030 Agenda, the need for data and statistics has intensified, with the rapid spread of digital technologies bringing great opportunities and challenges. Big data and other innovations can help to strengthen official statistics for the achievement and monitoring of the Sustainable Development Goals. However, they come with risks in the absence of internationally accepted standards for data use. The evolving data environment around new technologies, data sources and actors is also challenging the traditional role of official statistical systems and can be difficult to integrate. The extensive experience of national statistical offices in working with data should be leveraged to ensure efficient use of data for public good and to maximize the value of data assets in the data environment.

75. Significant changes on the financing for development landscape have spurred demand for data and statistics beyond long-standing metrics, such as GDP, towards mainstreaming indicators on well-being, inequality and multidimensional vulnerability. The pace of progress on data frameworks, measurements and collection and, critically, on financing for data and statistics has not kept pace with these challenges. With seven years to the deadline for the Sustainable Development Goals, significant data gaps regarding the Goals persist. Funding for statistical systems and data environments have also remained flat since 2015 and has fallen since the COVID-19 pandemic. ODA for data and statistics was 0.3 per cent in 2020, a fraction of actual needs.

76. Urgent action is needed by all stakeholders, as follows:

(a) The international community should scale up funding for data and statistics;

(b) Countries should prioritize resources towards the development of their national statistical and data systems, including establishing data stewards;

(c) Stakeholders should work together to close the Sustainable Development Goals data gaps and develop metrics beyond GDP.