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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 *Financing for Sustainable Development Report 2024* of the Inter-Agency Task Force on Financing for Development, provides an assessment of progress made in implementing the financing for development outcomes since the adoption of the Monterrey Consensus of the International Conference on Financing for Development in 2002, in an increasingly challenging global context. In its report, the Task Force draws on the expertise, analysis and data collected by its members.

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I. Overview and key messages

1. Financing for development is at a crossroads. Over the past several years, the world has contended with persistent pandemic-related uncertainties, ramped up geopolitical divides, war and increasingly restrictive financing conditions, all of which represent direct challenges to the achievement of the Sustainable Development Goals. Progress towards achieving the Goals, however, was off track even before the recent confluence of crises, as financing was neither mobilized at the scale required nor allocated in the terms necessary to achieve deep economic and societal transformation. Despite the efforts over the past two decades to advance development financing across the action areas of the financing for development agenda, countries currently face large unmet financing needs and a financial architecture that is unable to close these gaps in an increasingly crisis-prone world. The gap between the international community's development aspirations and the financing dedicated to meet them has never been so large.

2. Financing challenges are at the heart of the current sustainable development crisis. Unmet financing needs for the Goals and for climate action are estimated to be in the trillions of dollars and are particularly acute in many developing countries. When the recent series of shocks and food and energy crises set back sustainable development around the world, the finance divide severely hampered the ability of many developing countries to respond aggressively; as a result, those countries saw larger and more persistent regression in progress towards achievement of the Goals. Globally, and despite commitments to the contrary, many actors, both public and private, still invest in brown activities and have yet to fully align their decision-making and financing allocations with the Goals. The current tight global financing conditions are exacerbating an investment crisis and hampering the urgent scaling up of sustainable development investments.

3. Financing can, however, also play a role in turning our fortunes around. United Nations discussions on financing for development can be a catalyst for change. In March 2002, world leaders convened in Monterrey, Mexico, to address the challenges of financing for development around the world, particularly in developing countries. The outcome of that meeting was the Monterrey Consensus of the International Conference on Financing for Development, a historic breakthrough, in which the critical importance of mobilizing and using financial resources effectively was recognized, as was the critical importance of enabling national and international economic conditions to eradicate poverty and achieve sustainable development. The Monterrey Consensus provided an anchor for discussions on financing and the international financial architecture in the development agenda. The link between financing and the development agenda is now more important than ever, given the broader development agenda agreed upon by the international community in 2015 – embodied in the 2030 Agenda for Sustainable Development and the Paris Agreement on climate change – in which an ambitious yet indispensable set of sustainable development objectives was set out. Around the same time, financing for development commitments were reaffirmed and updated in the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, which provided a global framework for financing for sustainable development.

4. The Fourth International Conference on Financing for Development, to be held in Spain in mid-2025, provides a unique opportunity to commit to reforms of financing frameworks at all levels with a view to closing the gap between the aforementioned aspirations and the financing thereof. Enabling environments for financing sustainable transformations are not in place. At the same time, the recognition that the world is running out of time has triggered a new commitment to financing reform by governments, the private sector and the international community.

As daunting as the financing challenges are, there is at least a shared understanding that the international community must address them with urgency and ambition. Member States have recognized the urgency of addressing those challenges in discussions at the United Nations and beyond. In General Assembly resolution 78/231, Member States gave the Fourth International Conference on Financing for Development an ambitious mandate to address financing challenges “in the context of the urgent need to accelerate the implementation of the 2030 Agenda and the achievement of the Sustainable Development Goals and to support reform of the international financial architecture”.

5. The Inter-Agency Task Force highlights four sets of overarching questions that warrant Member States’ attention ahead of the Conference:

(a) How can the Conference help to close large financing and investment gaps, at scale and with urgency, and enhance effectiveness of spending? What is the package of reforms that can help deliver the rapid scaling up of public and private investments in the Goals, building on the Sustainable Development Goal stimulus proposed by the Secretary-General and containing actions across the action areas: on tax, private investment and blended finance, concessional financing, and innovative financing instruments? How can the Conference help Governments to do more on domestic resource mobilization and optimizing spending through growth- and revenue-enhancing reforms to better allocate scarce resources while prioritizing the Goals?

(b) How can the Conference help to close gaps in the international financial architecture and support international rules for trade, investment and finance that are fit for purpose for today’s challenges? Which international financial architecture reforms could enhance countries’ resilience in a more crisis-prone world and enable access to financing on affordable terms and conditions? How can the international community align trade, investment and technology agreements and rules fully with sustainable development?

(c) How can the Conference close credibility gaps and rebuild trust in global partnership and multilateralism? How can public and private actors reconcile misalignment between rhetoric and action and renew momentum for meeting long-standing commitments on concessional financing, global governance reform, and fully aligning policy frameworks and investment allocations with the Goals?

(d) How can the Conference help to formulate and finance new development pathways to deliver on the Goals and ensure no one is left behind? How can the ongoing rethinking of economic development paradigms, not least the relationship between States and markets in achieving sustainable transformations, inform new national and international financing policy frameworks for sustainable development?

II. Global economic context and its implications for sustainable development

6. At the midpoint for achievement of the 2030 Agenda, the global economy lacks dynamism and is grappling with an array of risks and challenges. After a period of rapid economic expansion early in the millennium, global economic momentum has waned, creating a challenging environment for financing development. Global investment, trade and productivity growth all decelerated amid a series of major crises and economic and non-economic shocks spanning from the food price crisis of 2007–2008 and the financial and economic crisis of 2008 to the recent coronavirus disease (COVID-19) pandemic and escalation of geopolitical conflicts. Hard-earned development gains have been reversed, particularly in poor and vulnerable countries, which are also the countries most affected by ever-increasing climate challenges.

7. In this highly challenging environment, the global economic outlook remains fragile, with subdued growth prospects. The global economy avoided the worst-case scenario of a recession in 2023, with growth estimated at 2.7 per cent. Nevertheless, global growth is expected to remain weak in the medium term amid subdued investment and high levels of debt, particularly in many developing countries. A protracted period of low growth would make a full recovery of pandemic losses even more elusive for vulnerable countries. Downside risks include commodity price spikes and supply disruptions caused by a further escalation of geopolitical tensions, a prolonged period of tight financing conditions, persistent inflation and trade fragmentation. Faster disinflation, however, could ease financing conditions; a less-contractionary-than-expected fiscal stance across countries and stronger economic performance of major economies provide upside risks to the forecasts.

8. With a view to boosting investment and improving prospects for growth and sustainable development, national actions and international cooperation must both be stepped up. Comprehensive national policy packages aimed at fostering macroeconomic stability and promoting structural transformations have been shown to be effective at driving investment. At the same time, greater global cooperation across the action areas of the Addis Ababa Action Agenda is more important than ever, in order to reduce debt distress and provide relief where needed, facilitate trade integration and technology transfer, alleviate food insecurity, scale up climate finance and stimulate investment in the Goals. Without a concerted effort, the world faces a protracted period of weak investment, slow growth and high debt-service burdens, which would put the Goals out of reach.

III. Key messages and recommendations of the *Financing for Sustainable Development Report 2024*

Domestic public resources

9. Domestic public resources, and the mobilization of additional tax revenue in particular, have progressively become a more central aspect of Member States' deliberations on financing for development. Domestic public finance is essential for financing the Goals, increasing equity and helping to manage macroeconomic stability. Robust and resilient fiscal systems, including both tax and expenditure, can contribute to poverty alleviation and reduced inequalities while supporting economic growth, industrial transformation and environmental sustainability. Through the Addis Ababa Action Agenda, Heads of State and Government endorsed a whole-of-government approach that included increasing the quantity of resources, enhancing the quality of expenditures and ensuring that those two actions are carried out fairly and sustainably. The Addis Ababa Action Agenda contained extensive commitments and a discussion of international tax cooperation and measures to combat illicit financial flows. It reflected the growing understanding among Member States of the importance of building the overall capacity of the State using domestic resources and the positive implications thereof for bolstering trust in government, strengthening the social contract and delivering public goods and services.

10. A myriad of crises over the past two decades – including economic crises, pandemics, geopolitical conflicts and disasters – has had a major impact on the mobilization of domestic resources. There has been a notable but uneven increase in tax revenue in developing countries since 2000, with most gains concentrated in the decade before the world financial and economic crisis of 2008. Since the significant increases in tax revenue in developing countries over that period, the record has been mixed, with the COVID-19 pandemic halting the momentum that had been gained by the renewed attention on improving tax systems in the Addis Ababa Action Agenda.

Setbacks from exogenous shocks are expected to increase as crises become more frequent and intense owing to the impact of the changing climate on social, economic and environment stability.

11. Despite the progress made, significant untapped tax potential remains in developing countries, and there is a pressing need to reform fiscal systems with a view to tapping that potential and generating resources on the scale required for achieving the Goals. Expanding tax capacities to raise revenue for funding public goods and services is primarily a domestic challenge and will require the political will to both overcome entrenched interests that benefit from existing systems and to increase investment in the tax system. Many countries have invested in tax reforms, and their examples demonstrate the possibilities that arise when countries realize this unmet potential. So far, however, political will has been found wanting in many countries, including in developing countries, where investments in tax system reform and in administration capacity have been insufficient, and in donor countries, which have not met their pledges regarding the volume of assistance they would provide to support revenue mobilization. At the Fourth International Conference on Financing for Development, Member States could consider how to turn commitments for domestic tax reforms into action, with a view to making tax systems fairer and more transparent, efficient and effective.

12. Building tax capacity is indispensable and urgently needed for strengthening the ability of Governments to deliver sustainable development. To respond to investment needs related to the Goals and external challenges, countries need to build strong and resilient fiscal systems, including through diversification of revenue sources and measures to combat illicit financial flows. Countries with weak fiscal policies and institutions, low buffers, high levels of informality and low tax capabilities will continue to find it difficult to deliver on the Goals. When taxpayers contribute to society and governments combat corruption and provide valuable public goods and services in return, a virtuous circle can be sustained: investment in tax capacity supports increased spending on public goods and improved services, which contributes to voluntary compliance by taxpayers. New digital technologies have helped tax authorities to step up their efforts to improve governance of revenue systems, prevent certain types of tax evasion and improve relationships with taxpayers. By building trust through effective governance of revenue and expenditure systems, governments will also be better able to achieve other public policy goals.

13. Globalization and digitalization have fundamentally altered the taxation landscape, motivating, in part, the increased focus on international taxation in the financing agenda. Globalization and long-term changes in economic structures have challenged the effectiveness and efficiency of revenue mobilization systems, thus necessitating shifts in the design of tax policy and administration. Tax systems primarily rely on a mix of taxation of labour, capital and consumption. Over the past 20 years, developing countries have been squeezed by their relatively less formalized economies and, by extension, smaller tax bases, declining tariff revenue due to trade liberalization and competitive pressures to lower corporate taxes to attract private investment. In order to mobilize sufficient revenue, many countries have turned to consumption taxes, which can be regressive; some have managed the implications that such a shift entails for equity better than others. Globalization and financial liberalization have made it easier for businesses and individuals to shift profits and assets to other jurisdictions, which has also increased the pressure on countries to decrease corporate or wealth taxation over time, a challenge which is particularly acute for poorer countries. Efforts to constrain harmful tax competition and combat tax evasion and avoidance have prompted much of the attention paid to advancing international tax cooperation.

14. Since 2015, attention has shifted dramatically towards multilateral tax cooperation instruments, which has transformed the international tax cooperation landscape and enabled progress on combating tax avoidance and evasion but also risks leaving a subset of countries further behind. Discussions aimed at updating international tax norms and promoting international tax cooperation are an essential complement to efforts to boost tax capacity, which are primarily domestic. When the Addis Ababa Action Agenda was agreed in 2015, few multilateral tax agreements existed; bilateral relationships and agreements were the dominant form of international cooperation. Since then, exchange of information on request for tax purposes has matured, several multilateral legal agreements have been signed, and important tax transparency instruments have been implemented through the Global Forum on Transparency and Exchange of Information for Tax Purposes. The automatic exchange of financial account information, which began in 2017, and the automatic exchange of country-by-country reports prepared by multinational enterprises, which began in 2018, provide an abundance of information to those tax administrations involved in such exchanges. Most developing countries, however, lack both access to such information and the ability to use it. Work to address the challenges of globalization and digitalization has been ongoing at various forums for over a decade. A pioneering effort to introduce a global minimum corporate tax is being implemented, but other efforts have yet to yield policy results that sufficiently address tax avoidance and evasion while maintaining full support from all Member States. Concerns remain regarding the inclusiveness and effectiveness of existing international tax cooperation mechanisms, including concerns regarding the suitability of new global norms for developing countries whose tax administrations have lower capacity levels. The Fourth International Conference on Financing for Development is an opportunity for global political leaders to confirm the future direction and governance of international tax cooperation at a fully inclusive forum.

15. Efforts to coordinate internationally to ensure adequate domestic expenditure on agreed international goals have often faltered. Since 2000, there has been an increasing focus on carbon pricing, reforms to fossil fuel subsidies and incentives for green energy and green industry. Nevertheless, the commitment in the Addis Ababa Action Agenda to phase out harmful fossil fuel subsidies remains largely unfulfilled, and implicit and explicit fossil fuel subsidies have grown over time. Similarly, increased spending on gender equality and women's empowerment and on universal social protection floors has been routinely supported rhetorically, but practical implementation thereof has lagged. The international community could consider how the Fourth International Conference on Financing for Development could add further momentum to efforts to align expenditure with the Goals and support fiscal policies aimed at reducing inequalities.

16. National development banks are increasingly seen as a critical part of the global financial system and an important tool for ensuring that financing is available for countries' sustainable development priorities. Coordination and networking among public development banks has grown significantly since the agreement on the Addis Ababa Action Agenda, in which the role of national development banks was highlighted. The international community could consider how a new international agreement could build on the progress made in cooperation and coordination across the entire system of public development banks to increase their impact.

Domestic and international private business and finance

17. Along with the broad slowdown in global growth, foreign direct investment flows have decelerated, revealing disparities in the distribution of such flows both geographically and sectorally. Investment trends have been highly uneven since

Member States convened in Monterrey in 2002. Following the rapid growth of the 1990s and 2000s, foreign investment has slowed over the past 15 years, driven largely by shifts from capital-intensive activities towards digital business models, asset-light forms of production and the "servicification" of economies. Those trends are, in turn, making the pursuit of traditional models of development based on exports of manufactured goods increasingly difficult.

18. The investment gap continues to grow across all sectors related to the Goals, which reflects underinvestment and additional needs, particularly in energy and infrastructure. While investment in those sectors has grown rapidly since 2015, growth has been highly uneven; much of it has been concentrated in developed countries, China and certain large developing countries. The least developed countries have seen only marginal growth in investment over the past two decades and will require dedicated assistance. The Fourth International Conference on Financing for Development provides an opportunity for Member States to agree on ambitious measures to support the least developed countries and other developing countries with a view to mobilizing investment for the Goals. Such measures could include efforts to tackle high costs of capital and risk premiums, as well as an international investment support centre for the least developed countries.

19. Today, smaller firms and modern service providers can play a more central role in establishing linkages with international supply chains and boosting the industrial transformation of countries. Relying on services as a basis for economic growth, however, can prove challenging for those developing countries where energy supply, information and communications technology infrastructure and human capital remain limited. Furthermore, services tend to create fewer jobs. With the development of new growth and development strategies suitable for an age of climate change, rapid technological change and a changing global economy, there has been renewed interest in sustainable industrial policies aimed at supporting sustainable and inclusive transformations. The Fourth International Conference on Financing for Development can help to enable the alignment of financing frameworks and actions with a view to facilitating such transformations.

20. Transformation strategies can build on and must complement growing interest and efforts by the private sector to integrate sustainability considerations. While significant progress has been made in corporate sustainability over the past 30 years, risks of misalignment of corporate practices with sustainability goals persist. Some companies have actively engaged in voluntary sustainability initiatives to address risks and capitalize on opportunities tied to stakeholder expectations. Nevertheless, the orientation of decision-making towards the short term, which is particularly evident in moments of crisis, points to an ongoing need to redefine the broader rules of the game.

21. A more dynamic and sustainable business sector can only be achieved with more inclusive and sustainable financial markets. Lack of access to affordable finance and financial incentives misaligned with sustainability are often among the most binding constraints for sustainable private sector development. While important progress has been made towards financial inclusion, with more than half a billion people gaining access to financial services between 2017 and 2021 alone, the availability of long-term financing continues to be a challenge, particularly in developing countries. In addition, short-term incentives and decision-making often stand in the way of greater sustainability. Efforts to extend investors' time-horizons, such as those proposed by the Global Investors for Sustainable Development Alliance in preparation for the Fourth International Conference on Financing for Development, are imperative to align private actions with long-term sustainable development trends. Stability, sustainability and greater access are mutually reinforcing.

22. The present moment offers an opportunity to accelerate progress. Investor interest in sustainable finance has grown steadily since the 1990s. Sustainable fund flows have remained relatively resilient, consistently surpassing 2016 levels, despite year-on-year fluctuations following the COVID-19 pandemic. Nevertheless, sustainable fund assets still comprise only a small percentage of total global assets under fund management today, estimated at less than 5 per cent of the global fund market in 2023. Furthermore, impact investing, designed to contribute to real-world solutions in line with the Goals, represents only a small part of sustainable assets. Weaknesses related to the information infrastructure for sustainable finance, which have given rise to greenwashing concerns, are compounded by an enabling environment that incentivizes traditional investment strategies. The growing political polarization of sustainable finance has also led to a backlash in some countries. Against this challenging backdrop, the journey towards the maturation of sustainable finance has commenced and has been marked by the consolidation of voluntary standards and the enactment of legislation at the national and regional levels. The upcoming Fourth International Conference on Financing for Development offers an opportunity for continued collaboration towards: (a) interoperability of sustainable finance legislation across regions, with a view to preventing uneven progress and heavy compliance burdens while accounting for regional and local specificities; (b) adoption of mandatory national disclosure standards with a double materiality vision; (c) carefully crafted frameworks and incentives for impact investing at scale aimed at aligning capital markets with real world impact; and (d) a broader set of macroeconomic policies aimed at creating enabling conditions for sustainable transformations.

International development cooperation

23. While international development cooperation has grown substantially since the adoption of the Monterrey Consensus in 2002, demand for development cooperation has also increased. Most recently, the COVID-19 pandemic, conflicts and the cost-of-living crises have placed unprecedented demands on international development cooperation. Urgent action is needed to boost all types of international development cooperation and to use them as effectively as possible.

24. Though official development assistance (ODA) has reached new heights, it continues to fall short of existing needs and commitments and is under pressure to respond to growing need. In 2022, ODA provided by members of the Development Assistance Committee of the Organisation for Economic Co-operation and Development reached $211 billion. ODA has more than doubled in real terms compared to 2000 levels, yet there are concerns that, in a more crisis-prone world, growing expenditure on refugee response, humanitarian aid and climate mitigation will come at the expense of support for other development priorities. This potential decline highlights the urgent need to increase the total ODA envelope so as to ensure that additional resources are available to address mounting challenges and that those resources are targeted appropriately to countries most in need. In addition, donors collectively have continued to fall short of ODA commitments, with fewer countries – four in 2022 – meeting the United Nations target of providing 0.7 per cent of gross national income as ODA.

25. Countries that are particularly vulnerable to the adverse effects of climate change and to debt vulnerabilities, such as the least developed countries and small island developing States, need more concessional resources and grants. To better account for the vulnerabilities of such countries, vulnerability measures could be considered in decisions regarding allocations of concessional financing. Innovative financing instruments and mechanisms should also be explored with a view to raising

additional resources for financing sustainable development. The Fourth International Conference on Financing for Development could build on recent and renewed interest in innovative financing to bring such mechanisms to scale.

26. Multilateral development banks are in a unique position to accelerate investments in sustainable development and remain a critical source of affordable long-term finance for developing countries and of countercyclical support in times of crisis. At the same time, the size of their paid-in capital bases has not increased in line with the expansion of the global economy or growing needs. Recent global shocks have increased the urgent need for multilateral development banks and their shareholders to review their scale, roles and functions with a view to adapting and responding to the challenges in achieving the Sustainable Development Goals. Multilateral development banks have begun to undertake a wide range of reforms, including by addressing global public goods, aligning lending and operations with the Goals and improving measurement of impact. The upcoming twenty-first replenishment of the International Development Association of the World Bank, which is the primary source of concessional finance for the least developed countries and other lower-income countries, will need to be the largest ever in order to help to meet financing needs for the Goals. The Fourth International Conference on Financing for Development should galvanize progress on these efforts to achieve ambitious outcomes.

27. In the Addis Ababa Action Agenda, the importance of international public finance as a catalyst of additional resource mobilization was recognized. While there have been many good examples of how development cooperation can be used to catalyse resource mobilization, such examples remain limited in scale and scope. Domestic political engagement as well as technical assistance are needed to ensure that development cooperation does help to mobilize other resources, such as additional tax revenue, through capacity support in that area, sustainable finance, through the deepening of local markets, and private investment at scale and for impact, through a new, impact-focused approach to blended finance.

28. Climate finance and the alignment of international development cooperation with climate and biodiversity goals are not keeping pace with the escalating impacts of climate change. While climate finance has grown over time and an increasing share of climate-related development finance also targets biodiversity goals, the commitments made have yet to be fully met. Flows of climate finance, mainly adaptation finance, remain grossly inadequate, particularly for the most vulnerable countries, which further widens the financing gap. The creation of the loss and damage fund was a historic milestone, but more financial commitments will be crucial. At the same time, the increasingly complex and fragmented architecture of global climate finance has not only created monitoring and reporting challenges but has also made coordination and access to finance more difficult for developing countries, especially the least developed countries and small island developing States. Several proposals have been put forward to improve the governance structure for climate finance. Concerns also remain regarding how to ensure the additionality of support for climate change mitigation and other areas that are, by nature, global public goods. The Fourth International Conference on Financing for Development provides an opportunity to address such challenges, including those related to additionality, and ensure that climate finance is effectively delivered at scale.

29. The effectiveness of development cooperation must be revitalized in pursuit of better development results and the strengthening of trust in a rapidly changing financing landscape. International development cooperation has changed in multiple ways over the past decade and now features a more diverse set of providers, different modalities and more complex instruments, which have increased burdens on developing countries. Amid all the changes, effective delivery of support, including

better allocation and greater mobilization of resources, remains as important as ever, yet attention to the quality, impact and effectiveness of development cooperation has lagged.

International trade as an engine for development

30. In the past two decades, international trade has acted as an engine for development for many developing countries, contributing to economic growth, poverty reduction and a narrowing of the development gap with developed countries. Nevertheless, export-based development may become more difficult to pursue. While the world merchandise trade nearly quadrupled in nominal terms over that period, the pace of the expansion has been highly uneven. A decade of rapid export growth leading up to the recession of 2008–2009 was followed by a period of weaker trade growth. The recent slowdown in the growth of global trade and declines in trade openness pose challenges for many developing countries, making the traditional export-based development model much harder to pursue.

31. The vision of an open, integrated global economy with freer trade, economic interdependence and international cooperation is increasingly threatened, as greater fragmentation, eroding multilateralism and rising inequalities have generated counter-pressures to reverse globalization and move away from existing practices. Strong leadership and collective actions are needed to curb efforts to impose trade-restrictive measures that undermine global cooperation on trade.

32. There are also continued challenges in integrating vulnerable developing countries into the global trade of goods and services, with digital trade threatening to further exacerbate inequalities. Despite the increased participation of developing countries as a group, the most vulnerable developing countries have remained largely marginalized in international trade. For example, growth in the services trade has largely benefited developed countries and a few developing countries in Asia. The distribution of the benefits of digital trade has also been highly uneven, putting countries with weak connections to networks at a particular disadvantage. This situation highlights the need to redouble efforts to accelerate digitalization and implement technology policies and to facilitate investment in necessary infrastructure so that the benefits of digital trade can be harnessed.

33. The least developed countries, small island developing States and landlocked developing countries remain largely marginalized in international trade, which underlines the need to continue to strengthen the participation of countries in special situations in global trade. Efforts to that end could include agreement on a possible follow-up to Sustainable Development Goal target 17.11, which calls for doubling the least developed countries' share of global exports, including through accelerated efforts towards building trade and productive capacities so that the preferential market access provided to the least developed countries can make a greater contribution to their export growth and economic diversification. Redoubled efforts to put in place supportive mechanisms, such as the Aid for Trade initiative, are also required. At the Fourth International Conference on Financing for Development, consideration should be given to such mechanisms and others that can facilitate a productive integration of developing countries into the global economy.

34. A major impediment to accelerating international trade is the global trade financing gap, which has increased sharply in recent years. Unmet global demand for trade financing is estimated to be $2.5 trillion annually. All told, 80 per cent or more of the global merchandise trade depends on trade financing. As private sector commercial banks will not be able to narrow the trade finance gap substantially, the role of other trade financing providers becomes fundamentally important, for

instance, that of multilateral development banks in providing supply chain finance in emerging markets.

35. Moreover, the multilateral trading system, regional trade agreements and international investment agreements have an important role to play in providing enabling conditions for sustainable development. Such agreements can be geared towards enhancing coherence between trade, investment and sustainable development, including in the areas of gender equality, human rights and environmental sustainability, particularly climate actions. There is significant scope for these agreements, once modernized, to support countries in making inroads into achieving the Goals and promote a more equitable and inclusive sharing of gains from trade.

Debt and debt sustainability

36. The debt challenges of developing countries remain significant, especially among the poorest and most vulnerable countries: more than half of the countries that use the Debt Sustainability Framework for Low-income Countries, created by the International Monetary Fund (IMF) and the World Bank, are at high risk of, or in, debt distress, and debt-service burdens crowd out vital investments and constrain progress towards the Goals in many developing countries. While debt levels have broadly stabilized after spiking in the first year of the pandemic, the high costs of servicing and refinancing debt amid tight global financial conditions add to the debt vulnerabilities of many developing countries. Supporting developing countries in navigating such challenges is essential given the significant financing needs associated with reaching the Goals, achieving structural transformation, adapting to climate change and increasing resilience in the face of future shocks.

37. While median debt levels across the globe generally fell in the 2000s, that trend reversed course in the 2010s, and global debt levels are now, on the whole, stabilized at levels close to those reported in 2000. Nonetheless, significant variation across countries and country groupings remains.

38. In many countries, high debt-service burdens hamper the implementation of the 2030 Agenda. In a growing number of developing countries, the interest portion of public debt service surpasses public spending in crucial sectors: 3.3 billion people live in countries where Governments spend more on interest payments than on health or education. Challenges are particularly pronounced for the countries that are most vulnerable to climate shocks, which face high borrowing and recovery costs, thereby increasing their debt vulnerability. At the same time, it is essential that countries do more to optimize spending, increase revenues and target reforms that are growth-enhancing.

39. With debt-service burdens projected to remain elevated for several years as new financing options are dwindling, more needs to be done to reduce the risks of liquidity crises. Global financing conditions remain tight; net debt inflows into developing countries since 2022, taken as a whole, would be in negative territory if not for sustained debt financing from multilateral institutions. High refinancing costs and limited access to international financial markets, combined with continuously high external debt repayments in 2024 and 2025, will put significant liquidity pressures on countries.

40. There has also been a significant shift in the composition of developing countries' debt since 2000. For the least developed countries and other low-income countries, commercial debt now amounts to 25 per cent of external debt, up from just 10 per cent in 2010. The share of non-Paris Club creditors in the total external debt stock of the least developed countries and other low-income countries now exceeds

that of Paris Club creditors. While the broader shift of the financing mix towards private creditors and non-Paris Club creditors has led to greater access to finance, it has also resulted in greater debt servicing burdens, with external debt service alone absorbing more than a fifth of tax revenue in 25 developing countries. Greater diversity of creditors also exacerbates creditor coordination challenges in debt restructurings.

41. Against this backdrop, urgently addressing the debt challenges of developing countries is critical. Stepped up action is needed across three priorities: (a) strengthening debt crisis prevention; (b) finding solutions for countries that face severe fiscal constraints and that may be hampered by debt overhangs or insufficient reforms aimed at addressing underlying problems for investing in the Goals; and (c) establishing a more effective debt crisis resolution mechanism.

42. In a more complex environment, debt management is more critical than ever. Technical assistance from several institutions and the sharing of good practices are supporting progress in public debt management, but such progress continues to be gradual and uneven across countries.

43. Debt transparency, which is a shared responsibility of both borrowers and creditors, can also play an important role in supporting continued financing flows to developing countries. While progress has been made in recent years, gaps remain. Borrowers should continue to enhance their institutional and operational frameworks to enable timely and comprehensive debt reporting, and creditors should follow through on initiatives aimed at supporting more transparency.

44. Countries that are solvent but face very high debt-service burdens will also need more systematic support. With fiscal space that is already eroded and upcoming debt service payments that are very high amid tight financing conditions, low- and lower-middle-income countries face the prospect of additional reductions in investments in the Goals or even solvency challenges. Additional concessional financing, including the sustained delivery of large amounts of highly concessional financing from multilateral lenders, will be required, as well as other forms of support. This support could include the use of financial instruments, such as debt swaps or credit enhancements to enable rollover of commercial debt, as well as measures to prevent leakage of fresh concessional financing to service non-concessional debt.

45. The international community needs to continue advancing progress on resolution of debt distress, monitor developments closely and enhance the toolkit of solutions to ensure that the appropriate tools are in place to support countries when risks materialize. In that context and despite significant recent progress, including the resolution of debt distress in several countries, continued efforts are needed to enhance the efficiency of the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, and other options need to be explored for mitigating the risk of a financing squeeze triggering a debt crisis in other countries.

46. The Fourth International Conference on Financing for Development provides an opportunity to tackle the challenges of high borrowing costs and debt-service burdens and address gaps in the debt restructuring architecture. The need to address the fiscal and external constraints of the many developing countries that are unable to invest in the Goals because of their high debt-service burdens is broadly recognized, as is the need to further improve debt resolution processes. Many proposals have been put forward to address such challenges, including proposals for financial instruments and contractual innovations that could be used to deliver fiscal space for the Goals (such as debt swaps, credit enhancements and State-contingent clauses), enhanced analytical tools, stepped up capacity support, domestic law reforms, enhancements to the Common Framework for Debt Treatments, and other institutional innovations at the international level. At present, however, there is no political agreement on a

package of reforms through which the debt architecture could be aligned with the Goals.

Addressing systemic issues

47. The need to better align global financial and monetary systems with the Goals is universally recognized. The need to reform the international financial architecture and strengthen the coherence and consistency of institutions and platforms is now universally recognized as well, and Member States have endorsed calls for such reform at various forums, not least in the financing for development outcomes. Some have used the term “non-system” to describe the existing set of international financial and monetary frameworks, rules, institutions and markets that has evolved since 1945, often in an uncoordinated and ad hoc fashion, alongside the different phases of economic globalization. The lack of coherence and coordination has often resulted in disjointed responses to economic, financial and other crises. The shortcomings of the international financial architecture have become more acute as non-economic risks, most importantly those associated with climate change, increasingly affect economic and financial stability. The Addis Ababa Action Agenda is the first financing for development outcome in which the need to enhance policy coherence across all three dimensions of sustainable development is recognized.

48. The financial volatility that has characterized the current global financial system has undermined efforts to achieve the Goals. So far, efforts to set up structures that can deliver the necessary financing and stability have fallen short. Since the end of the exchange rate component of the Bretton Woods system in the 1970s, the global economy has seen growth in the size of the financial sector, progressively deeper integration of global financial markets, rapid technological change enabling more interlinkages, increasingly complex financial instruments and intermediaries and, with those developments, growing systemic risk. The Bretton Woods system had included mechanisms aimed at moderating the accumulation of financial and trade imbalances through exchange rate adjustment; since the 1980s, however, countries have at times developed large surpluses or deficits. The strength of regulatory frameworks for banks has oscillated over the decades, and a growing share of financial activity has moved to unregulated or lightly regulated markets and instruments, which are more likely to generate volatility. The world has experienced recurrent financial crises, with increasing cross-border transmission of instability, which generate strong impacts on developing countries and on the poorest people, who tend to be deeply affected by the associated economic disruptions.

49. Global financial stability is especially sensitive to policies and developments in a small number of systemically important markets and instruments, with spillover effects on developing countries, as demonstrated by the world financial and economic crisis of 2008, the ripple effects of market instability at the onset of the COVID-19 pandemic and the strong impacts of the monetary policy decisions taken in developed countries in 2022. In the current environment of relatively high interest rates, stretched asset valuations and greater economic uncertainty, the risks of abrupt movements and higher volatility of asset prices are elevated. Continued geopolitical tensions also raise the risk of further volatility in commodity prices. Overall, over the course of the last two decades systemic risks appear to be growing, partly driven by the increase in climate-related risks.

50. The global financial safety net, with IMF at its centre, has come under enormous strain in recent years, revealing both gaps in its architecture and uneven coverage. As countries have moved to liberalize financial flows, capital flow volatility has become a channel through which financial and non-financial shocks are generated or amplified. The global financial safety net, a multilayered arrangement for responding

to crises, has been repeatedly tested. Those countries that have been able to accumulate sufficient reserves, predominantly in dollar-denominated assets, have used those reserves to cushion volatility, but that approach has opportunity costs in terms of foregone consumption and investment, which can be significant in countries facing pressing investment needs to support the achievement of the Goals. Meanwhile, access to other layers of the safety net has been very uneven. Bilateral swap arrangements among developed countries have become the tool of choice for fighting the spread of financial crises, with only a limited amount of such resources available to most developing countries through multilateral and regional arrangements. In the past 20 years, special drawing rights have been successfully allocated twice in crisis situations, but a larger role for special drawing rights in buffering external adjustment or providing a flexible source of finance capacity would require architecture reforms. Sustainable development cannot be achieved without a conducive international institutional environment built on solidarity and multilateralism, including a strong global financial safety net with IMF at its centre. The international community could consider how a Fourth International Conference on Financing for Development can help to address these challenges and support further strengthening of the global financial safety net.

51. Recent bank failures show that financial sector stability remains a challenge despite the progress achieved after the world financial and economic crisis of 2008. In addition, regulators' roles are becoming more complex as they are increasingly called upon to incorporate climate change into their tasks. Several national financial regulations and international standards were updated in the wake of the crisis of 2008, but implementation thereof is uneven, and certain risks remain outside the regulatory perimeter or scope of regulation. There are also industry pressures to roll back the implementation of stricter banking standards. New digital financial instruments, including cryptoassets, present new risks. In addition, financial regulatory norms have only gradually begun to address climate-related risks and do not yet address them sufficiently. Regulators, supervisors and financial institutions alike face challenges in quantifying the forward-looking nature of climate-related risks. Market actors with short-term horizons can underestimate the systemic risks of climate change in their business-related and risk management decisions. Addressing the externalities of decisions regarding financial sector credit allocation requires public policy instruments through which appropriate incentives can be set for stability and sustainability. A refocusing of financial sector policies on climate impact would facilitate progress in mobilizing private capital for climate, and the specific challenges faced by developing countries could be taken into account in that process. A Fourth International Conference on Financing for Development could bring together relevant stakeholders, including regulators, Governments, international organizations, financial institutions, other private sector actors and civil society, to create financial markets that are accessible, stable and sustainable.

52. While digitalization has reshaped finance and introduced new risks, it also provides opportunities to enhance the efficiency of outmoded financial infrastructure, such as the payment system. The rise of digital payments and recent experimentation with central bank digital currencies could further reshape the plumbing of all economic transactions. The Fourth International Conference on Financing for Development can explore how these changes impact sustainable development, support knowledge-sharing and address questions of interoperability of payment systems to increase the speed of cross-border transactions for developing countries and reduce the cost thereof.

53. Despite repeated commitments to give developing countries more of a voice and increase their representation in global economic governance and some progress being made to that end, achieving significant reforms to institutional arrangements has

proven difficult since the Monterrey Consensus. The governance of international financial institutions reflects decisions made almost 80 years ago at the United Nations Monetary and Financial Conference, at which only 44 delegations were present. Since then, colonialism has ended, and newly independent nations have emerged. The expansion of the membership of international financial institutions significantly diluted the voting shares of some of their original members. Nevertheless, global economic governance has not kept pace with ongoing changes, including the rise of the global South and other economic and geopolitical changes, and is not aligned with today's global economy. All international conferences on financing for development have included commitments to governance reform. Some improvements aimed at giving developing countries more of a voice were made between 2005 and 2015, but the pace and scale of change have left many countries dissatisfied. The Fourth International Conference on Financing for Development, which will be held at a time when there is widespread recognition of the need to strengthen the legitimacy of global governance arrangements, presents an opportunity to address these shortcomings.

Science, technology, innovation and capacity-building

54. Technology holds great promise for advancing sustainable development and improving resilience. Technological advances have expanded economic opportunities, enhanced productivity, created new industries and business models, and contributed to poverty eradication. Science, technology and innovation have made significant contributions to safeguarding people's well-being, saving millions of lives during the COVID-19 pandemic. Technologies are also keeping alive the hope that the world can still address some of the most critical environmental threats facing the planet, such as climate change and biodiversity loss.

55. Although it offers significant opportunities, technological change can have unintended consequences for economic, social and environmental outcomes and for human rights. Labour market transformation spurred by technological advances demands careful policy responses. Generative artificial intelligence, in particular, could cause significant job loss, with a disproportionate impact on the female labour force. Misuse of technologies can infringe on human rights, including privacy, as artificial intelligence-driven business models that rely on access to massive amounts of personal data often have inadequate data protection measures. Artificial intelligence could also erode public trust in institutions by accelerating the spread of misinformation and disinformation and reinforcing bias. In addition, the environmental footprint of some frontier technologies can be significant.

56. The benefits and costs of rapid technological change are unevenly distributed. Innovation and technology diffusion between and within countries have been uneven, leading to disparate opportunities for countries and communities to harness technological advancements, and rapid technological change sometimes outpaces the ability of societies to adapt. The global technological landscape continues to be characterized by a high level of geographical concentration of innovation. Technology diffusion within and across countries has slowed in the past few decades, partly driven by the increasing complexity of technologies and innovations, which in turn raises the required level of complementary investment in physical and human capital, infrastructure and institutions, as well as by a complex intellectual property rights landscape that countries have to navigate. Geoeconomic fragmentation could also diminish the spillover of international technology.

57. In the light of the growing recognition of science, technology and innovation as drivers of development trajectories and of efforts to achieve the Goals, there is a need to rethink the role of science, technology and innovation policy within national and

global development frameworks. Mission-oriented, multi-stakeholder science, technology and innovation policies should be placed at the centre of development frameworks. Such policies should aim to ensure effective coordination between technology and other sectors, between public and private actors, and across systemic levels, with a view to orienting technological change towards addressing pressing development challenges.

58. In order to ensure innovation and technology diffusion patterns that are consistent with sustainable development, countries need to invest in education, training, infrastructure and institutions and ensure appropriate levels of market competition and intellectual property right protection. It is also important to acknowledge that providing access to technology does not automatically lead to widespread adoption thereof, owing to the lack of financing, inadequate technological awareness and literacy, behavioural inertia, and cultural and social norms.

59. A gender-transformative approach is needed to close the gender digital divide, through measures addressing gender-related barriers to education and digital tools and ensuring safety, security and privacy online.

60. The rapid expansion of the financial technology (fintech) industry has facilitated greater financial inclusion, but significant gaps remain in access to credit and financial services, and new risks have arisen. Policymakers need to create the socioeconomic and institutional conditions, in particular broader levels of equality, to ensure that all members of society can benefit from advances in this industry. At the same time, policymakers need to carefully monitor and address the emergence of new, powerful actors in the financial sector. The entry of major technology firms into finance has significant implications for financial market stability, competition, consumer privacy and financial integrity. Given the complex trade-offs between different policy goals, financial sector regulators need to work with industry regulators, competition authorities and data authorities to strike an optimal balance.

61. The Fourth International Conference on Financing for Development provides an opportunity to address the enduring challenges countries have faced in generating, gaining access to and applying technologies that advance sustainable development. It is an opportunity to identify and address domestic and international hurdles that limit countries' capacity for innovation and technology absorption and that lead to entrenched asymmetries between countries and firms in the global technology landscape. The Conference could also be an opportunity to identify principles to guide the design, execution and evaluation of frontier technologies, including artificial intelligence-based tools, within the fintech industry.

Data, monitoring and follow-up

62. Underinvestment in public data systems and statistical activities continues to undermine the pursuit of sustainable development. Despite the potential for substantial economic returns, Member States have not been able to capitalize on the power of data due to a lack of political prioritization, fragmentation, inadequate and siloed investment and shortfalls in capacity and resources. Making full use of data and unlocking the data dividend for the Goals will require both political leadership and financial commitments.

63. An excessive focus on income per capita and gross domestic product (GDP) levels obscures progress on all three dimensions of sustainable development. Efforts to move beyond GDP have gathered steam. The development of the global Sustainable Development Goal indicator framework and related efforts show that there is a growing richness of data covering human progress and environmental sustainability. Member States can take the opportunity provided by summits slated for 2024 and

2025 to agree to advance a consolidated set of a limited number of indicators that go beyond GDP and can be used as measures of progress. Member States can also decide how they would like to incorporate vulnerability and other factors into the criteria for allocation of concessional finance.

64. Financial data are essential for risk mitigation and policymaking, but there is no single overarching framework that unites the different parts of the international system. The global indicator framework has consolidated efforts and provided much coordination to the work of international statistical communities. While there are still some gaps and challenges in the Sustainable Development Goal indicators, there is even more heterogeneity and inconsistency in the world of financing data. Financing for development outcomes have never featured a mandate for work on an indicator framework, and different international institutions continue to pursue different tracks in data development. The Fourth International Conference on Financing for Development is an opportunity for Member States to issue a mandate for the development of a financing indicator framework if they believe that such a framework will assist efforts to finance sustainable development.

65. Innovative data sources can complement traditional data sources, but access to data remains a challenge. Technological progress and the use of electronic devices have led to the creation of an ever-increasing amount of digital data. Use of administrative data sources is on the rise, and the collection and use of citizen-generated data for developing policy-relevant information is a growing trend. If harnessed and utilized effectively, these and other innovative data sources present an opportunity to generate information in real-time, which can complement official statistics that bring depth of detail and representation through validated surveys and censuses. At the Fourth International Conference on Financing for Development, Member States may want to consider strengthening data governance mechanisms that enable governments to systematically engage with partners, such as the private sector, academia and civil society, in order to gain access to frontier sources of data while upholding relevant privacy protections.