

## **Background Note**

### **MR. WU HONGBO UNDER-SECRETARY-GENERAL FOR ECONOMIC AND SOCIAL AFFAIRS TO THE MINISTERIAL MEETING OF THE GROUP OF 24**

**Lima, Peru**

2015 is a watershed year in international development. Member States of the United Nations have adopted the 2030 Agenda for Sustainable Development, a universal and transformative vision for ending poverty and preserving the planet, and the Addis Ababa Action Agenda, a comprehensive financing framework for sustainable development. In Paris in December, they strive to agree to a meaningful and universal agreement on climate change.

2015 has also been a year that has put in stark light some of the major obstacles to meeting the aspirations of the international community. Modest growth and significant downside risks to the global economy make progress on poverty eradication more difficult; and record temperatures and droughts, conflicts and refugee crises threaten broader stability and deny people basic human rights. These threats can only be addressed through multilateral efforts, underlining the importance of immediate action on implementing the global development agenda.

### **World economic situation and prospects**

Global growth remains subdued and well below potential output. While the United Nations' *World Economic Situation and Prospects* projected global growth at 2.8 per cent in 2015, accelerating to 3.1 per cent in 2016, continued weaknesses in aggregate demand in developed economies, a sharp decline in commodity prices and increased uncertainty in a number of large emerging economies have heightened the downside risks for global growth and stability, posing significant challenges to policymakers worldwide.

While major developed economies are expected to see growth picking up, they continue to face considerable headwinds from the legacies of the global financial crisis, including sluggish employment growth, elevated private and public sector debt, and financial sector fragilities. At the same time, growth prospects in economies in transition and several large

developing countries have moderated, in particular in a number of commodity-dependent economies.

Against the backdrop of modest GDP growth, employment creation remains too weak to recover the jobs lost during the crisis and to absorb new market entrants. Unemployment is thus expected to remain elevated in many developed countries, and labour market conditions in many developing countries and economies in transition have worsened. Unemployment rates are estimated to have increased in most developing regions, with the exception of South Asia.

Slow employment growth reflects weak aggregate demand. In fact, the broad-based weakness of investment in the context of highly accommodative monetary policies and very low real interest rates raises concerns over medium-term prospects. Thus, macroeconomic policies to stimulate aggregate demand, such as targeted infrastructure investments, should be a priority to reduce cyclical unemployment and improve medium-term growth prospects. There is an opportunity for a double-dividend by targeting such investments toward achieving the Sustainable Development Goals (SDGs) and to facilitate the transition towards low carbon economies.

## **The 2030 Agenda for Sustainable Development**

The 2030 Agenda for Sustainable Development, which was arrived at in an unprecedented process of global consultations and negotiations, sets out an extremely ambitious vision – of a world free of poverty, hunger, disease and want, and in which humanity lives in harmony with nature. At its heart is a set of 17 Sustainable Development Goals (SDGs), which are broader in their remit than the MDGs, which primarily focused on poverty and social development. Incorporating the priorities and demands from people and governments across the world, the new agenda addresses the social, economic and environmental dimensions of sustainable development in an integrated manner.

The 2030 Agenda pursues respect for the human rights of all people and gender equality, breaking new ground in the way it links peace and security to sustainable development. It is universal, speaking to all people in all countries, while prioritizing the vulnerable and marginalized. Lastly, it aims to inspire and create genuine partnerships among all countries and actors.

The 17 SDGs and 169 associated targets speak to the full breadth and depth of this agenda. They aim to finish the unfinished business of the MDGs, with goals to end poverty and hunger, ensure access to health and education, water and sanitation, and to achieve gender equality. They deepen the economic pillar of the global development agenda, promoting sustained and sustainable growth and full and productive employment, access to energy and resilient infrastructure, reduction of inequalities, both within and between countries, and sustainable cities. To ensure the environmental sustainability of socio-economic progress, the SDGs aspire to sustainable consumption and production patterns, combat climate change and protect marine and terrestrial ecosystems. In Goal 16, the international community commits itself to promoting peaceful and inclusive societies, access to justice for all and effective, accountable and inclusive institutions, while Goal 17 speaks to the means of implementation and the global partnership for sustainable development.

### **The Addis Ababa Action Agenda**

The SDGs spell out means of implementation – finance, technology, capacity-building, trade and systemic issues – under each of the goals and in SDG 17. These means of implementation are supported and complemented in the Addis Ababa Action Agenda, which is an integral part of the 2030 Agenda. The Action Agenda, adopted by governments at the Third International Conference on Financing for Development in Addis Ababa, Ethiopia, in July, provides a comprehensive financing framework for sustainable development and implementation of the SDGs, along with concrete agreements and actions.

In its comprehensive approach, the Action Agenda seeks to mobilize public finance, set appropriate public policies and regulatory frameworks, unlock the transformative potential of people and the private sector, and incentivize changes in consumption, production and investment patterns in support of sustainable development. It aligns all financing flows and policies with economic, social and environmental priorities and ensures that financing is stable and sustainable.

Official development assistance (ODA) remains crucial, particularly for countries most in need. But aid alone will not be sufficient to finance the SDGs. All sources of finance will be needed – public and private, domestic and international. In this regard, the agreement in Addis builds on the legacy of the 2002 Monterrey Consensus on Financing for Development.

As in Monterrey, it recognizes that finance is not just about financing flows for specific goals. Rather, mobilizing the resources for sustainable development depends on the underlying developmental model. In order to achieve development goals, countries have to put in place cohesive and nationally owned sustainable development strategies that support growth, develop productive capacities and facilitate structural transformation. This is primarily a national responsibility, but also depends on public policies that strengthen the international enabling environment.

But the Action Agenda goes beyond Monterrey to fully take into account the regulatory and other policy requirements for realizing the economic, social and environmental dimensions of sustainable development. To address larger and more diverse financing needs, the Action Agenda emphasizes that different combinations of financing modalities are appropriate for different sectors and projects. It recognizes the need for specific public policies and regulatory frameworks to encourage such private investments that support the SDGs, for example in infrastructure, and stresses the importance of long-term investment, highlighting the growing role of development banks. The Action Agenda also emphasizes that development and dissemination of technology, as well as capacity building, are key means of implementation for the 2030 Agenda for Sustainable Development.

Among the numerous concrete measures and agreements, Addis emphasized several key cross-cutting areas of action – on social protection and essential public services, sustainable infrastructure, and support for the poorest countries – that build on the synergies of the SDGs and will address critical gaps in their delivery.

Governments committed to a new social compact and agreed to provide fiscally sustainable and nationally appropriate social protection systems, including social protection floors. The Action Agenda also encourages them to set nationally appropriate spending targets for quality investments in essential public services for all, including health, education, energy, water and sanitation, and commits to support developing countries in these efforts.

Member States of the United Nations also agreed to address the large financing gap for basic infrastructure in developing countries – estimated to be between \$1 trillion and \$1.5 trillion annually. A global infrastructure forum will be launched to this effect, building on and

better coordinating existing infrastructure initiatives. The forum will encourage a wider range of voices to be heard, particularly from developing countries. It will identify and address infrastructure and capacity gaps, to ensure that no country or sector is left behind, and that investments are socially and environmentally sustainable.

This initiative complements the strong focus of Addis on national, regional and multilateral development banks and their critical role in financing the new agenda. There is a strong call on multilateral development banks in particular to adapt and be fully responsive to the sustainable development agenda. The Action Agenda stresses that development banks should make optimal use of their resources and balance sheets. It encourages them to examine their role, scale and functioning to improve their contribution to the sustainable development agenda, and calls on development banks to develop graduation policies that are sequenced, phased and gradual, to help ensure that countries have access to sufficient affordable finance after graduation. The Action Agenda also welcomes new development banks and their contributions to development, and calls on them to establish or maintain social and environmental safeguards systems.

The mobilization and effective use of domestic public resources are central to the pursuit of sustainable development. Countries commit to improving the fairness, transparency, efficiency and effectiveness of their tax systems, including by broadening the tax base and strengthening tax administration. However, national action alone will not suffice, with scaled up international cooperation in tax matters critical to complement national efforts. The Action Agenda supports on-going efforts in the IMF, OECD, and the World Bank, and decided to strengthen the United Nations Committee of Experts on International Cooperation in Tax Matters to ensure more inclusive cooperation and dialogue among national tax authorities.

Effective global economic governance is critical to supporting implementation of 2030 Agenda. Recognizing that the increasing weight of emerging economies and developing countries should be reflected in the decision-making processes of International Financial Institutions, the Financial Stability Board and other standard-setting bodies, the Addis Ababa Action Agenda calls for further increases in voice and representation of developing countries in global norm setting and decision-making bodies, including in the IMF, the World Bank and financial norm setting bodies. Timely implementation of the 2010 IMF quota and governance reform would have been an important first step

towards bolstering the credibility, legitimacy and effectiveness of the institution.

As shareholders in the main international financial institutions, Member States also commit to select their leaders through open and transparent, gender-balanced and merit-based processes and to make their staff more diverse. The Agenda further stresses the importance of ensuring that international agreements, rules and standards are consistent with each other and with progress towards the SDGs, and encourages development finance institutions to align their business practices with the 2030 Agenda for Sustainable Development.

### **A universal climate agreement**

Securing a universal, ambitious and binding climate agreement in Paris in December is indispensable. Eradicating poverty and building resilience through inclusive economic growth, shifting towards more sustainable consumption and production patterns, and holding global temperatures below 2 degrees Celsius are all mutually reinforcing goals that, acted on together, can provide prosperity and security for this and future generations.

The Paris Agreement will need to provide a comprehensive, long-term vision of a world free of poverty through the opportunities created by the transformation to a low-emission and climate resilient future. It must send a clear signal to citizens and the private sector that the transformation of the global economy is inevitable and beneficial. This will accelerate investments in clean energy and spur a global, low-carbon transformation well before the end of the century, consistent with a below 2 degrees Celsius pathway. There is also consensus that the agreement must strengthen resilience to climate impacts, with a focus on the poorest and most vulnerable.

To turn this long-term vision into reality, immediate, concrete and cooperative actions are necessary. An ambitious agreement on financing is critical in this regard. In 2009, developed countries agreed to the joint mobilization of \$100 billion annually by 2020 to address the needs of developing countries. Developed countries need to provide a politically credible trajectory for mobilizing these resources by 2020. Recent pledges of support to the Green Climate Fund are promising, with a total of 36 governments having pledged support as of 1 September, and total support announced amounting to \$10.2 billion.

Acknowledging that the United Nations Framework Convention on Climate Change is the primary intergovernmental forum for negotiating the global response to climate change, the Addis Ababa Action Agenda reaffirms the importance of fully implementing existing climate finance commitments. Addis also welcomes the Green Climate Fund Board's aim towards a 50:50 balance between mitigation and adaptation finance over time, and their goal to direct 50 percent of the adaptation allocation for particularly vulnerable countries. In this context, and to further build coherence and strengthen linkages across the three pillars of sustainable development, all development financing should be climate sensitive and take disaster resilience into consideration.

### **The way forward**

The adoption of the 2030 Agenda for Sustainable Development and the Addis Ababa Action Agenda are only first steps on a long journey toward achieving sustainable development for all. The real test of success will lie in making steady progress over the next 15 years in implementing these agreements.

National implementation and its review will be driven by countries. It will be critical that space is created at the national level for all stakeholders to assess progress and to jointly find solutions to overcome remaining obstacles. Such efforts can be complemented by regional mechanisms, which are particularly well placed to share relevant experience and mobilize expertise. At the global level, the Addis Action Agenda has established an annual Financing for Development Forum with universal participation. The inaugural Forum will take place in 2016, and will bring together Member States, the institutional stakeholders of the Financing for Development process, including the World Bank, the International Monetary Fund and the World Trade Organization, and representatives of business and civil society, to deliberate on progress in implementation.

The engagement of G24 finance ministers in this process will be critical to its success. We look forward to working together with you in this important endeavour.