Financing sustainable development and developing sustainable finance

A DESA Briefing Note On

The Addis Ababa Action Agenda

The Addis Ababa Action Agenda (AAAA) provides:

- A comprehensive set of policy actions by Member States, with a package of over 100 concrete measures to finance sustainable development, transform the global economy and achieve the Sustainable Development Goals.

- A new global framework for financing sustainable development that aligns all financing flows and policies with economic, social and environmental priorities and ensures that financing is stable and sustainable.

The Action Agenda draws upon all sources of finance, technology and innovation, promotes trade and debt sustainability, harnesses data and addresses systemic issues. It establishes a strong foundation to support implementation of the 2030 Agenda for Sustainable Development.

The Action Agenda also serves as a guide for actions by governments, international organizations, the business sector, civil society, and philanthropists. Deliverables announced at the sidelines of the Third International Conference on Financing Sustainable Development in Addis Ababa, along with additional initiatives to be launched, will further contribute to reaching our global goals. Together, they support a revitalized and strengthened global partnership for sustainable development that can end extreme poverty and deliver sustainable development for all.
I. A NEW FINANCING FRAMEWORK

The financing needs to achieve the 2030 Agenda for Sustainable Development are extremely large, on the order of trillions of dollars annually. Meeting them is not an insurmountable challenge. Global public and private investment would be sufficient – but only if financial resources were invested in and aligned with sustainable development. This requires a comprehensive approach, which mobilizes public finance, sets appropriate public policies and regulatory frameworks, unlocks the transformative potential of people and the private sector, and incentivizes changes in consumption, production and investment patterns in support of sustainable development.

The AAAA presents a policy framework that realigns financial flows with public goals. Official development assistance (ODA) remains crucial, particularly for countries most in need. But aid alone will not be sufficient. The AAAA addresses all sources of finance: public and private, domestic and international. As in the Monterrey Consensus, it recognizes that finance is not just about financing flows, but also depends on public policies that strengthen the national and international enabling environments. The Agenda reiterates that countries have primary responsibility for their economic and social development, while committing the international community to create an enabling environment for their development.

But the AAAA also goes beyond Monterrey to fully take into account the regulatory and other policy requirements for realizing all three dimensions -- economic, social and environmental -- of sustainable development in an integrated manner. Universal in nature, the AAAA is an integral part of the 2030 Agenda for Sustainable Development. Indeed, its full implementation is critical for the implementation of the SDGs.

To address the larger and more diverse financing needs associated with sustainable development, the AAAA offers a more nuanced understanding of the benefits and the risks associated with different types of finance. The AAAA puts forward specific public policies and regulatory frameworks to encourage private investments that support the SDGs. It stresses the importance of long-term investment, and the need for all financing to be aligned with sustainable development. It spells out the potential contributions of public finance, highlighting the growing role of national, international and multilateral development banks. It emphasizes that development and dissemination of technology, as well as capacity building, are key means of implementation for the 2030 Agenda for Sustainable Development. And it incorporates each of the means of implementation targets of the Sustainable Development Goals.
II. **ADDIS ABABA ACTION INITIATIVES**

The Addis Ababa Action Agenda includes several new commitments by Governments. These include:

- **A new social compact to provide social protection and essential public services for all**

  Over 2.4 billion people still lack access to clean water and sanitation, 57 million of the world’s children are not enrolled in school, and more than half the world’s population lacks any social security coverage. As part of a new social compact, Governments commit to provide fiscally sustainable and nationally appropriate social protection systems, including social protection floors. Governments are also encouraged to set nationally appropriate spending targets for quality investments in essential public services for all, including health, education, energy, water and sanitation. To this end, Governments agree to mobilize additional domestic public resources. At the same time, the international community commits to strong international support for these efforts.

- **A global infrastructure forum to bridge the infrastructure gap**

  Financing needed for basic infrastructure investment in developing countries is estimated to be between $1 trillion and $1.5 trillion annually. To address this financing gap, Member States agree to launch a global infrastructure forum, 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, with the aim to ensure that no country or sector is left behind, and that the commitment to the social and environmental dimensions of sustainable development is respected.

- **An ‘LDC package’ to support the poorest countries**

  While official development assistance (ODA) has risen, the share allocated to least developed countries (LDCs) has fallen by 16 per cent last year. As part of the Action Agenda, developed countries commit to reverse this trend. The Action Agenda further encourages them to increase the target for ODA to the world’s poorest nations to 0.2 per cent of national income, with the European Union promising to do so by 2030. Countries also agree to adopt or strengthen LDC investment promotion regimes, including with financial and technical support. In addition, Governments aim to operationalize the technology bank for the LDCs by 2017.

- **A Technology Facilitation Mechanism to advance to the SDGs**

  The Action Agenda recognizes that the technology divide across a wide range of economic sectors and makes it difficult for developing countries to achieve sustainable development. To help facilitate development, transfer and dissemination of technologies relevant for achieving the SDGs, Member States agree to establish a Technology Facilitation Mechanism, consisting of a United Nations Interagency Task Team, an annual collaborative Multi-stakeholder Forum on Science, Technology and Innovation for the SDGs, and an on-line platform.
Enhanced international tax cooperation to assist in raising resources domestically

Additional tax revenues are required to deliver the new social compact and finance sustainable development. Both improved domestic tax administration and strengthened international tax cooperation are essential to ensure that adequate finance is available. To aid in these efforts, countries agree to strengthen capacity building, including through ODA. They also agree to support existing international initiatives for tax cooperation, with a focus on increased participation of developing countries. In this regard, Member States agree to strengthen the United Nations Committee of Experts on International Cooperation in Tax Matters.

Mainstreaming women’s empowerment into financing for development

While significant progress has been achieved in advancing gender equality in the MDG era, for example in primary school enrollment and access to healthcare for women and girls, more remains to be done. There are significant differences in pay for equal work, women remain underrepresented in government, and violence against women remains unacceptably common. The Action Agenda integrates gender considerations across all of its chapters. It emphasizes the importance of women’s and girls’ human rights and also stresses that women’s empowerment can make a significant contribution to economic development for all. It commits countries to undertake legislation and administrative reforms to give women equal rights, and promotes gender-responsive budgeting and tracking among other measures.

Additional cross-cutting issues in the Action Agenda include scaling up efforts to end hunger and malnutrition, promoting inclusive and sustainable industrialization, full and productive employment and decent work for all, peaceful and inclusive societies, and protecting our ecosystem. The AAAAA draws upon a broad range of financing and technological modalities and combinations of modalities, as well as promising new areas of international cooperation, to promote the delivery of the SDGs and the 2030 Agenda for Sustainable Development. It highlights a set of broad initiatives whose policy content is elaborated in more detail in the ensuing chapters.
III. **SUMMARY OF THE ADDIS ABABA ACTION AGENDA**

The AAAA includes agreements and policy recommendations in seven main chapters: i) domestic public resources; ii) domestic and international private business and finance; iii) international development cooperation; iv) international trade as an engine for development; v) debt sustainability; vi) addressing systemic issues; vii) science, technology, innovation and capacity building; as well as in a concluding section on data, monitoring and follow-up.

**Domestic public resources**

For all countries, public policies and the mobilization and effective use of domestic resources are central to the pursuit of sustainable development. Significant additional domestic resources, supplemented by international assistance, will be critical to realizing sustainable development and achieving the SDGs.

Raising domestic public resources is a central achievement of the agenda. In the AAAA, countries commit to improving the fairness, transparency, efficiency and effectiveness of their tax systems, including by broadening the tax base and strengthening tax administration. The AAAA welcomes efforts by countries to set nationally defined domestic targets and timelines for enhancing domestic revenue, and agrees to support developing countries in need in reaching these targets. Countries also agree to strengthen international cooperation to build capacity in developing countries, including through enhanced ODA.

The Action Agenda commits countries to redouble efforts to substantially reduce illicit financial flows (IFFs) by 2030, with a view to eliminating them over time. To this end, countries agree to combat tax evasion and corruption, both through strengthened national regulation and increased international cooperation. The agenda invites appropriate international institutions to publish estimates of IFF volume and composition, and encourages the international community to develop good practices on asset return. Countries further commit to strive to eliminate safe havens that create incentives for transfer abroad of stolen assets and illicit financial flows.

Countries agree to strengthen international cooperation in tax matters. The AAAA includes agreement on implementation of transparency and reporting mechanisms. It calls on companies to pay taxes to the governments of countries where economic activity occurs and value is created. The AAAA supports on-going efforts in the IMF, OECD, World Bank and United Nations. Countries agree 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.

Countries also commit to efficient and effective spending aligned with sustainable development, including through rationalizing and phasing out inefficient fossil fuel subsidies, while minimizing the impact on the poor. Countries further commit to transparent and gender responsive budgeting and transparent public procurement frameworks. Particular attention is paid to the potential of development banks to finance long-term investments, especially in credit market segments in which commercial banks are not fully engaged or large financing gaps exist.

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1 See annex below for detailed list of agreements.
Domestic and international private business and finance

The AAAA emphasizes the important role played by private businesses and finance in the development agenda, but recognizes that the financial system often does not intermediate finance in ways that are aligned with sustainable development. It invites businesses to apply their creativity and innovation toward solving sustainable development challenges and to engage as partners in the development process. It encourages them to embrace a core business model that accounts for the environmental, social and governance impacts of their activities, including through integrated reporting. In this regard, the AAAA calls for a harmonization of the various initiatives on responsible financing standards.

At the same time, the agenda emphasizes the importance of strong regulatory and policy frameworks that both encourage private investment and better align private investment with public goals. Countries agree to strengthen their enabling environments. They also agree to promote sustainable corporate practices, such as on integrating environmental, social, and governance factors into company reporting, including through regulations as appropriate. Countries further agree to develop or strengthen long-term bond markets as a source of development finance, along with capital market regulations designed to reduce excess volatility and to promote incentives along the investment chain that are aligned with long-term investment and sustainable development.

Acknowledging the importance of financial inclusion, countries agree to consider financial inclusion as a policy objective in financial regulation. The Agenda includes a package of measures aimed at strengthening access to finance for micro, small and medium-sized enterprises (MSMEs), including through the use of development banks and innovative instruments. The Agenda acknowledges the importance of robust risk-based regulatory frameworks for all financial intermediation. At the same time, it notes that regulations change incentives, which can impact investment in sustainable development. Countries agree to work to ensure that policy and regulatory environments support financial market stability and promote financial inclusion in a balanced manner.

The Action Agenda further sets a target to reduce the average costs of transmitting remittances across borders to below 3 per cent by 2030. Countries further agree to ensure that no remittance corridor requires charges higher than 5 per cent, mindful of the need to maintain adequate service coverage, especially for those most in need.

International development cooperation

The ambitious 2030 Agenda for Sustainable Development will put significant demands on public budgets and capacities, which requires scaled up and more effective international support, including both concessional and non-concessional financing. In this regard, developed countries recommit to their ODA targets, including 0.7 per cent of gross national income (GNI) provided as ODA, with 0.15 to 0.2 per cent allocated to LDCs. Developed countries further commit to reverse the declining trend of ODA to the LDCs. Countries are encouraged to set a target of providing at least 0.2 per cent of ODA/GNI to LDCs, with the EU promising to do so by 2030.

The Action Agenda calls on providers of ODA and South-South cooperation to further increase the effectiveness of their development cooperation and to share knowledge about their respective efforts. In this context, countries also decide to hold open, inclusive and
transparent discussions on the proposed measure of ‘total official support for sustainable development’. The text speaks to the need to take into account the three dimensions of sustainable development in all flows, and to increase efforts to enhance the resilience of countries to respond to shocks and natural disasters.

The Action Agenda further calls on multilateral development banks to adapt and be fully responsive to the sustainable development agenda. It 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. It further calls on development banks to develop graduation policies that are sequenced, phased and gradual, and to help ensure that countries have access to sufficient affordable finance after graduation. The Action Agenda welcomes new development banks and their contributions to development, and calls on them to establish or maintain social and environmental safeguards systems. Addis also acknowledges the role played by multi-stakeholder partnerships in financing certain sectors and encourages them to support country-driven priorities and strategies.

**International trade as an engine for development**

The chapter on international trade as an engine for development welcomes the progress made recently in multilateral trade negotiations, in particular the Bali package of the World Trade Organization (WTO). It calls on WTO members to redouble their efforts to promptly conclude the negotiations on the Doha Development Agenda. It emphasizes the importance of policy coherence and regional integration. In this context, countries commit to craft appropriate safeguards in trade and investment agreements so as not to constrain domestic policies and regulation in the public interest. They further commit to expand trade financing, which can alleviate constraints on capturing trade-expansion opportunities. The Action Agenda further invites the General Council of WTO to consider how it can contribute to sustainable development.

The Agenda gives special attention to WTO policies to encourage trade expansion by LDCs and other developing countries, welcoming in particular the new WTO process to monitor and analyze implementation of its policy on special and differential treatment of developing countries. It reaffirms the right of WTO members to take advantage of the flexibilities to protect public health that are available in the agreement on protecting intellectual property rights and encourages WTO members to accept the amendment of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement to improve access to affordable medicines by the end of 2015. Governments also endorse aid for trade and will strive to increase allocations to LDCs. They further commit to provide technical assistance to landlocked developing countries (LLDCs) to support their participation in trade negotiations. Governments resolve to enhance support for various efforts to address illegal wildlife trade, illegal fishing, logging and mining, which are a challenge for many countries.

**Debt sustainability**

The AAAA notes the progress that has been made in the areas of debt and debt sustainability since Monterrey, but also expresses concern over the debt sustainability challenges that some countries face. The Agenda recognizes the need to assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief, debt restructuring and sound debt management. As in
Monterrey, the Action Agenda recognizes that both debtors and creditors share responsibility for debt crises. It commits to work towards a global consensus on guidelines for debtor and creditor responsibilities. It also invites relevant institutions to consider creating a central data registry, including information on debt restructurings, which would enhance public availability of debt data.

The AAAA recognizes the need to impede the activities of uncooperative minority bondholders of crisis-country bonds (so-called vulture funds), and encourages countries to adopt legislative efforts in this regard. Countries also commit to strengthen international support for advisory legal services for developing countries. The Actin Agenda calls on the international community to offer support to countries whose debt sustainability is threatened by shocks and natural disasters. It encourages consideration of further debt relief steps and the study of new risk-reducing financial instruments that could be of assistance for developing countries experiencing debt distress, particularly LDCs, LLDCs and small-island developing states (SIDS).

**Addressing systemic issues**

The AAAA reiterates Monterrey’s emphasis on global economic governance and the need to strengthen the United Nations’ leadership role in promoting development. Monterrey also emphasized the importance of coherence and consistency of the international financial, monetary and trading systems in support of development. The AAAA reflects the broadening of the 2030 Agenda for Sustainable Development to encompass policy coherence among the economic, social and environmental dimensions of sustainable development. It also takes account of international migration, affirming the rights of migrant workers.

As in Monterrey, the AAAA emphasizes the importance of international financial stability and international cooperation to counter excessive volatility. This reflects concern about systemic risks from regulatory gaps and misaligned incentives in the financial sector. Countries agree to address the systemic risks associated with shadow banking and “too-big-to-fail” financial institutions. They also promise to adopt measures to make food commodity markets function properly. They commit to adopt measures to reduce mechanistic reliance on credit ratings and to improve their quality, including by promoting increased competition and transparency, as well as to avoid conflicts of interest.

The AAAA further recognizes the need for strengthening the permanent international financial safety net, with a strong International Monetary Fund (IMF) and strengthened dialogue and cooperation with regional financial initiatives. Member States look forward to undertaking the special drawing rights (SDRs) review this year. The Agenda calls on the IMF to provide adequate levels of financial support to developing countries and to assist them in managing any associated pressures on the national balance of payments.

In addition, the 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. As shareholders in the main international financial institutions, Member States commit to select their leaders through open and transparent, gender-balanced and merit-based processes and to make their staff more diverse. The Agenda also 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.

Science, technology, innovation and capacity building

In a major expansion and advance of the Monterrey agenda, the AAAA introduces a chapter on science, technology and innovation (STI) as well as capacity building. The Agenda stresses the importance of public policies and finance to spur innovation, and calls on countries to consider setting up diversified innovation funds. It puts capacity building at the core of the agenda, including for domestic resource mobilization, international support to develop local capital markets, public-private partnerships, FDI, and infrastructure.

The AAAA establishes a Technology Facilitation Mechanism, with three components: i) a United Nations Interagency Task Team on Science, Technology and Innovation for the SDGs which will work with members of civil society, private sector and the scientific community to promote coordination, coherence and cooperation of technology initiatives; ii) an on-line platform to establish a comprehensive mapping of and disseminate information on STI initiatives, mechanisms and programmes; and iii) an annual collaborative Multi-stakeholder Forum on Science, Technology and Innovation for the SDGs. The Forum will provide a venue for facilitating interaction and matchmaking between relevant stakeholders and will help facilitate development, transfer and dissemination of relevant technologies for the SDGs.

Taking into account the recommendations by the Secretary-General’s High-level Panel on the proposed Technology Bank for the LDCs, countries commit to operationalize the Technology Bank by 2017. They will also seek to promote synergies of the Bank with the Technology Facilitation Mechanism.

Data, monitoring and follow-up

The final section of the AAAA considers how the international community should monitor implementation of the agreed actions. It emphasizes the importance of high quality disaggregated data for policy making and monitoring progress of implementation of the Agenda and the 2030 Agenda for Sustainable Development, and prioritizes capacity building in this area. It also calls on the United Nations system, in consultation with the IFIs, to develop transparent measurements of progress that go beyond per capita income.

To ensure adequate follow-up, the AAAA establishes an annual Financing for Development Forum of up to five days. Its intergovernmentally agreed conclusions and recommendations will be fed into the follow-up and review of the 2030 Agenda for Sustainable Development. The deliberations of ECOSOC’s Development Cooperation Forum will also be taken into account. Countries also decided that the High-level Dialogue of the General Assembly on Financing for Development will be held back to back with the HLPF under the auspices of the GA every four years. In addition, an inter-agency Task Force will report annually on progress in implementing the Financing for Development outcomes and the means of implementation of the 2030 Agenda for Sustainable Development. Together these efforts aim to ensure that no country is left behind.
ANNEX: SELECTED LIST OF DELIVERABLES OF THE ACTION AGENDA BY CHAPTER

A. Domestic public resources:

- encourages countries to set nationally defined domestic targets and timelines for enhancing revenue
- commits international support – both ODA and capacity building – to complement these efforts
- strengthens international cooperation in tax matters, including by supporting ongoing efforts in the IMF, OECD and World Bank and strengthening the United Nations Committee of Experts on International Cooperation in Tax Matters
- steps up the fight against illicit financial flows: countries agreeing to substantially reduce illicit financial flows by 2030 with the aim to eliminate them including through anti-abuse clauses in tax treaties, a commitment to strengthen accounting, better disclosure and information sharing, and more efforts to ensure tax is paid where economic activity occurs
- speeds up the return of stolen assets through development of a set of global best practices
- countries commit to transparent and gender responsive budgeting and transparent public procurement frameworks
- countries commit to rationalize fossil fuel subsidies, with a view to phase out harmful subsidies, while minimizing the negative impacts on the poor
- recognizes the potential of national development banks to finance long-term investments necessary for achieving sustainable development

B. Domestic and international private business and finance

- encourages businesses to embrace a core business model that takes account of the environmental, social and governance impacts of their activities, including integrated reporting, and encourages impact investing
- commits countries to develop policies and strengthen regulatory frameworks to better align private sector incentives with public goals
- calls for a harmonization of the various initiatives on responsible financing standards
- encourages private foundations to use their endowments actively through impact investment, to bring these resources into use as sustainable development investments
- calls on countries to mainstream financial inclusion as a policy goal in regulations, balancing access to and stability of financial markets
- commits to enhanced international support and capacity building for local capital market development
- sets a target to reduce the transaction costs of remittances to below 3 per cent and commits countries to ensure that no corridor requires charges higher than 5 per cent by 2030, while ensuring adequate service coverage
C. International development cooperation

- Developed countries recommit to their ODA targets, including 0.7 per cent of ODA/GNI and 0.15 to 0.2 per cent of ODA/GNI for LDCs
- Developed countries also commit to reverse the declining trend of ODA to the LDCs; encourages countries to set a target of providing at least 0.2 per cent of ODA/GNI to LDCs, with the EU promising to do so by 2030
- calls on both development cooperation providers to increase effectiveness, enhance their common understanding and improve knowledge sharing
- decides to hold open, inclusive and transparent discussions on the proposed measure of ‘total official support for sustainable development’
- calls on all international public finance flows to take into account the three dimensions of sustainable development, and to increase efforts to enhance the resilience of countries to respond to shocks and natural disasters
- calls on the multilateral development banks (MDBs) to examine their role, scale and functioning to enable them to adapt to and be fully responsive to the sustainable development agenda
- calls on the MDBs to develop graduation policies that sequenced, phased and gradual to ensure continued access to concessional finance
- welcomes new development banks and their contributions to development, and calls on them to establish or maintain social and environmental safeguards systems
- recognizes the important contributions of multi-stakeholder partnerships and encourages them to support country-driven priorities and strategies

D. International trade as an engine for development

- emphasizes the importance of policy coherence, and commits countries to craft trade and investment agreements with appropriate safeguards so as not to constrain domestic policies and regulation in the public interest
- Commits to increase the proportion of aid for trade to LDCs, and to provide technical assistance to LLDCs to support their participation in trade negotiations

E. Debt and debt sustainability

- encourages legislative efforts to impede activities of uncooperative minority bondholders
- calls on the international community to offer support to countries whose debt sustainability is threatened by shocks and natural disasters
- encourages consideration of further debt relief and the study of new instruments for developing countries, particularly LDCs, LLDCs and SIDS experiencing debt distress, building on the experiences of debt-to-health and debt-to-nature swaps

F. Addressing systemic issues

- calls for further increases in voice and representation of developing countries in global norm-setting and decision making bodies
• expands focus and advances the policy coherence agenda to include the economic, social and environmental dimensions of sustainable development, as well as international migration, affirming the rights of migrant workers

• agrees to take actions to improve the quality of credit ratings, including by promoting increased competition, as well as measures to avoid conflict of interest and increase transparency.

• commits countries to address the systemic risks associated with shadow banking and “too-big-to-fail” financial institutions

• calls on the IMF to provide adequate levels of financial support to developing countries pursuing sustainable development to assist them in managing any associated pressures on the national balance of payments.

• stresses the need to ensure that international agreements, rules and standards are consistent with each other and with progress towards the SDGs, and encourage development finance institutions to align their business practices with the 2030 Agenda for Sustainable Development.

G. Science, technology, innovation and capacity building

• decides to establish a Technology Facilitation Mechanism, consisting of a United Nations Interagency Task Team on Science, Technology and Innovation for the SDGs, an annual collaborative Multi-stakeholder Forum on Science, Technology and Innovation for the SDGs and an on-line platform

• agrees to operationalize, by 2017, the technology bank for the LDCs, taking into account the recommendations by the Secretary-General’s High-level Panel on the proposed bank

• puts capacity building at the core of the agenda, including for domestic resource mobilization, international support to develop local capital markets, public-private partnerships, FDI, and infrastructure

III. Data, monitoring and follow-up

• emphasizes the importance of high quality disaggregated data and prioritizes capacity building in this area

• calls on the UN to develop measurements of progress that go beyond GDP

• sets up a dedicated but integrated follow-up process to Addis, establishing an annual Financing for Development Forum of ECOSOC. Its intergovernmentally agreed conclusions and recommendations will feed into the HLPF

• decides that the High-level Dialogue of the General Assembly on Financing for Development will be held back to back with the HLPF under the auspices of the GA when the HLPF is convened every four years

• encourages the Secretary-General to convene an inter-agency Task Force to report annually on progress in implementing the Financing for Development outcomes and the means of implementation of the 2030 Agenda for Sustainable Development.