Financing for Development:

Progress and prospects

Key messages and recommendations of the 2017 Report[1]

Inter-agency Task Force on Financing for Development

Advance unedited draft

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[1] This note compiles the executive summary, introduction, and key messages and recommendations of the 2017 report of the Inter-agency Task Force for each of the action areas.

Executive Summary

2016 was the first full year of implementation of the Addis Ababa Action Agenda. Efforts have begun at all levels to mobilize resources and align financing flows and policies with economic, social and environmental priorities. Progress can be reported in all seven action areas of the Addis Agenda. Nonetheless, a difficult global environment has impeded individual and collective efforts, and many implementation gaps remain. The Addis Agenda provides a broad framework for individual actions and international cooperation to increase sustainable development investments. Its rapid implementation can stimulate global growth and advance the world toward achieving the SDGs, and therefore is more important than ever.

The challenging global environment in 2016 had significant impacts on national efforts to implement the Addis Agenda. This includes not only economic factors, such as challenging macroeconomic conditions, a large drop in commodity prices, decelerating trade growth, and volatile capital flows, but also humanitarian crises. Despite improvements projected for 2017 and 2018, the current growth trajectory will not deliver the goal of eradicating extreme poverty by 2030. Least developed countries will fall short by large margins.

National actions and international cooperation can help change the trajectory of the global economy and support countries toward achieving the SDGs. The seven action areas of the Addis Agendaaddress the different sources of finance – domestic public resources and combatting illicit financial flows, domestic and international private business and finance, international development cooperation (including official development assistance, South-South cooperation and development bank lending); as well as trade, debt sustainability, systemic issues and science, technology, innovation and capacity building. Each section of the report highlights key issues and lays out policy options for the consideration of Member States.[2] These recommendations emanate from the assessment of progress and implementation gaps presented in the report and its online annex. Chapters also share lessons learned from experience of taking action at the national and regional levels. Across the chapters, the Task Force has identified two elements in particular that respond to the challenges posed by the current environment – the need to increase long-term investments in sustainable development, and to address economic vulnerabilities.

Increases in long-term and high quality investments will lead to a sustainable rise in economic growth. Additional public and private investment and financing will be required to meet the large investment needs associated with the SDGs, particularly in infrastructure and especially in the LDCs. Such investment will also help stimulate global economic growth, creating a virtuous cycle. To achieve this, the report proposes measures to address impediments to private investment and to enhance public investments and the role of development banks. It raises the question of how to use such resources, including blended finance, most effectively, and identifies a number of principles for the use of blended instruments and public-private partnerships.

Increased long-term investments need to be complemented by measures to directly ameliorate the living conditions of the poor and vulnerable, such as social protection floors. Economic growth will not suffice to eradicate extreme poverty. The Addis Agenda responds to this challenge with a 'social compact', which includes a commitment to social protection floors for all, with a focus on the vulnerable, persons with disabilities, indigenous persons, children, youth and older persons. To address financing challenges associated with social protection floors, it proposes domestic measures and international support that respond to the counter-cyclical nature of financing need. The Task

[2] Those commitments and actions summarised in the inaugural Task Force report under 'Cross-cutting issues' – including issues such as social protection, infrastructure and gender, are covered partially in the respective action areas, and partially in the thematic chapter of the report. All cross-cutting issues also have dedicated sections on the report's online annex, http://developmentfinance.un.org. This annex will be publicly accessible in time for the 2017 ECOSOC Forum on Financing for Development follow-up.

Force also underlines that policies and actions on investment and vulnerabilities need not just be gender-sensitive, but should actively advance the goal of gender equality and women's empowerment.

Countries are taking actions on policy commitments across the Addis Agenda, and have started to bring them together into coherent implementation frameworks. Analysis by the Task Force shows that developing these financing frameworks is a central challenge for countries as they embark on implementing the 2030 and Addis Agendas. There are calls in all action areas for strategies and plans to guide implementation efforts – including medium-term revenue strategies, infrastructure plans, development cooperation strategies, and others. These strategies have to be coherent with the broader overall sustainable development strategy. Integrated national financing frameworks, as called for in the Addis Agenda, that take into consideration all financing sources and policies can provide this coherence. Task Force members will continue analytical work in this area, with a view to share lessons and support Member States in building and strengthening these frameworks.

A steadfast commitment by the international community to multilateral cooperation for sustainable development should support national efforts. International cooperation is as vital as ever. Many of the challenges that countries face, including slow economic growth, climate change and humanitarian crises have cross-border or even global repercussions, and cannot be addressed by any one actor alone. Rooted in the Financing for Development process, the Addis Agenda recognizes the complementary nature of national actions and a supportive international architecture for sustainable development.

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Introduction

2016 was the first full year of implementation of the Addis Ababa Action Agenda. This note, which is based on the 2017 report of the Inter-agency Task Force on Financing for Development, identifies the efforts that have begun at all levels to mobilize resources and align financing flows and policies with sustainable development. Progress can be reported in all seven action areas of the Addis Agenda. Nonetheless, a difficult global environment, sluggish growth and humanitarian crises have impeded individual and collective efforts. Success of the 2030 Agenda will rely on changing this trajectory. Rapid implementation of the Addis Agenda – which provides a broad framework for individual actions and cooperation to increase sustainable development investments while protecting the vulnerable – would stimulate global growth and advance the world toward achieving the SDGs. It is thus more important than ever.

The Addis Agenda seeks to mobilize public finance, to set appropriate frameworks to unlock private finance, trade opportunities and technological development, ensure debt sustainability and align the international financial, monetary and trading system with economic, social and environmental priorities. Rooted in the Financing for Development process, this holistic approach entails both domestic actions and a commitment to create an enabling international environment that supports national efforts.

At its heart are two main elements: integrated national financing frameworks to underpin coherent and nationally owned sustainable development strategies; and supportive global trade, monetary and financial systems. The national frameworks and strategies address country-specific needs and circumstances, and provide coherence to the many policy actions across the Addis Agenda action areas. Their implementation is what will drive progress toward the sustainable development goals and targets.

At the same time, national efforts need to be supported and complemented by international actions. The Addis Agenda includes commitments by Governments to take measures to improve and enhance global economic governance, and to arrive at a stronger, more coherent and more inclusive and representative international architecture for sustainable development. In addition, it commits to financial and capacity support to countries most in need and to tackling social and environmental concerns with cross-border repercussions, such as climate change and humanitarian crises.

These two elements also underpinned successes in achieving the Millennium Development Goals: poverty reduction relied to a significant degree on countries carefully managing their integration into a rapidly growing world economy. However, the context in which countries pursue their development goals has become more challenging in recent years. The economic and financial crisis and its aftermath have brought to the fore some of the systemic risks to the real economy associated with financial market volatility. Disappointing investment and trade growth ever since has rendered export-oriented growth strategies a much more difficult endeavour for developing countries.

Reporting by the Task Force confirms the significant impact of this difficult global environment on national implementation efforts. This includes not only economic factors, such as challenging macroeconomic conditions, a large drop in commodity prices, decelerating trade growth, and volatile capital flows, but also natural disasters, environmental, humanitarian and security crises. These difficulties could be further exacerbated if the international community retreats from its commitment to multilateral cooperation for sustainable development. A renewed commitment and concrete actions by Member States to create and preserve an enabling international economic environment therefore remain a priority.

At the national level, efforts are underway on many levels to develop and strengthen financing frameworks to support SDG implementation and sustainable development. Indeed, there are calls for national strategies and plans to guide implementation efforts in almost all action areas, – including for example medium-term revenue strategies (chapter III.A), financial inclusion strategies and infrastructure plans (III.B), development cooperation strategies (III.C), science, technology and innovation strategies (III.G), and many others. The Task Force recommends that these ultimately are brought together into a cohesive framework.

In each case, stakeholders with diverse interests need to arrive at a common understanding, priorities have to be set within budget constraints, and technically complex policy issues have to be tackled, often despite limited capacities. As challenges invariably differ by country contexts and evolve over time, these strategies also have to be country-specific and responsive to changing circumstances. Finally, they must be coherent with the broader overall sustainable development strategy. Integrated national financing frameworks that take into consideration all financing sources and policies, can provide this coherence. Indeed, the Addis Agenda notes that "cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks, will be at the heart of our efforts."

Such strategies and frameworks also serve as guideposts for national priorities and SDG-related opportunities to investors and development partners. Developing and implementing them is one of the central challenges that countries face as they embark on achieving the SDGs.

The task is complex, but first steps have been taken. For example, UNDP has undertaken Development Finance Assessments that comprehensively scan a country's financing landscape – both flows and policies – and is currently refining this methodology. Such assessments can be a baseline for integrated national financing frameworks. A number of building blocks of such frameworks have already emerged from this work – including leadership that facilitates institutional coherence; a clear vision for results; an overarching strategic financing policy; results-focused financing policies for specific flows; integrated monitoring, evaluation and learning; and an enabling environment for accountability and dialogue. Work is also ongoing on many of the action area-specific plans and strategies, including for example on financial market development and how to incentivize long-term investment, alignment with sustainability, and inclusiveness. In the upcoming 2017/18 work cycle, Task Force members will continue analytical work in this area, with a view to share emerging lessons and support Member States' efforts to strengthen these frameworks.

About this note

This note highlights the key messages and recommendations of the 2017 report of the Inter-agency Task Force on Financing for Development. Following the monitoring framework laid out in last year's inaugural report, the 2017 Task Force report begins its assessment of progress with an analysis of the global macroeconomic context (Chapter I), which sets the economic frame for implementation efforts. Drawing on the findings from a number of substantive work streams set up in response to mandates in the Addis Agenda, the thematic chapter (Chapter II) addresses how the Addis Agenda responds to the challenges presented in Chapter I. Chapter II focuses on issues that cut across all chapters, including investment, social protection, gender and other cross-cutting issues, and provides policy options on each of them. The remainder of the report (Chapters III.A. to III.G and IV) report on progress in the seven action areas of the Addis Agenda, and data issues. Each chapter begins with a brief summary that highlights some key issues and lays out policy options. These opening pages are reproduced in this note. The necessarily concise assessments in the report are complemented by and should be read in conjunction with the comprehensive online annex of the Task Force report (http://developmentfinance.un.org)[3]. The annex provides data and analysis for each of the more than 100 clusters of commitments and actions across the nine chapters of the Addis Agenda.

[3] This annex will be publicly accessible in time for the 2017 ECOSOC Forum on Financing for Development follow-up in May 2017

The production of the report and the online annex draws on the expertise, analysis and data of more than 50 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions such as the OECD and the Financial Stability Board that make up the Inter-agency Task Force. The major institutional stakeholders of the Financing for Development process, the World Bank Group, the International Monetary Fund, the World Trade Organisation, the United Nations Conference on Trade and Development, and the United Nations Development Programme take a central role, jointly with the Financing for Development Office of the UN Department of Economic and Social Affairs, which also serves as the coordinator of the Task Force and substantive editor of the report.

By bringing them together, the Task Force itself represents a coherence exercise. Preparation of the report has helped to reveal data gaps, areas where additional analysis will need to be carried out, and issues where coherence and alignment with sustainable development within the UN system itself can be improved further. It has also led to a set of policy recommendations, specific to each of the action areas, which provide guidance to the efforts by the ECOSOC Forum on Financing for Development follow-up and all other stakeholders to accelerate implementation of the Addis Ababa Action Agenda.

Key messages and recommendations of the 2017 report of the Inter-agency Task Force

The global context

In 2016, the first full year of implementation of the 2030 Agenda for Sustainable Development and the Addis Agenda, the world economy grew at its slowest rate since the global economic and financial crisis of 2008-2009. The United Nations Department of Economic and Social Affairs (UN-DESA) estimates that world gross product (WGP) expanded just 2.2 per cent in 2016, based on market exchanges rates. However, improvements are projected for 2017 and 2018.

Since the crisis, global growth has been sluggish, trade and investment growth have decelerated and financial flows have remained volatile. Weak investment has been central to the prolonged sluggishness in the global economy, through its linkages with aggregate demand, international trade, productivity and capital flows. Protracted weak global demand has discouraged firms from investing, especially in export-oriented and commodity sectors once the period of high commodity prices ended. Other elements at play include long-term factors such as demographics, expectations of lower future productivity growth, and the weakening of the “profit-investment nexus” as reflected in the divergence of corporate profit growth and capital expenditure growth.

The social consequences of the economic growth trend delineated here are profound. The International Labour Organization estimates that over 200 million people are expected to be unemployed in 2017, 3.4 million more than in 2016 with further increases expected in 2018 as more and more people come of age and join the global labour force. There is reason for concern about below-target economic growth and its social impact in the least developed countries (LDCs) in particular. The current economic growth trajectory would leave the LDCs short by a large margin of the goal of eradicating extreme poverty by 2030. DESA estimates that investment growth in LDCs as a whole would need to average 11.3 per cent per annum through 2030, an increase of roughly 3 percentage points relative to baseline projections.

Success of the 2030 Agenda will rely on changing the current growth dynamic. International cooperation that supports policies to increase public and private investment in sustainable development and generate employment, while protecting the vulnerable against crises and shocks, would help achieve the SDGs while stimulating global growth, and reducing the risk of future crises, creating a virtuous cycle. Implementation of the Addis Agenda, which provides a broad framework for such cooperation, is thus more important than ever.

Thematic Chapter: Financing investment and social protection

The Addis Agenda emphasizes the need to increase long-term investments, including in infrastructure, where investment needs are largest. The thematic chapter explores when and how public and private investments and blended finance can be mobilized for quality investments aligned with sustainable development, noting the role of development banks and specific challenges in the least developed countries (LDCs). Long-term and high quality investments will sustainably increase productivity and economic growth, and enhance households' incomes and resilience to shocks. However, measures to directly ameliorate the living conditions of the poor are also needed, particularly in light of their vulnerability to economic downturns, natural disasters and humanitarian crises. The chapter also presents options to expand and finance social protection floors, which can not only protect the vulnerable against downside risks, but contribute to aggregate demand and an improved investment climate. Measures to increase long-term investments and address short-term vulnerabilities are thus mutually reinforcing.

Public and private investment and financing will be required to meet investment needs, however different sources are not always substitutable – each has its own incentive structures, goals and mandates. Impediments to private investment can be addressed by developing infrastructure plans that can be translated into concrete project pipelines, and by promoting long-term investments by aligning incentives with sustainable development for all actors in the investment chain. Even with such additional steps, however, the risk/return profile of many investments that generate public benefits will not be sufficient to attract private investment. In these cases, ***there is an important role for public investment, including direct investment, co-investments, and risk and reward sharing with private investors, through guarantees, first loss tranches and other mechanisms.***

National, regional and multilateral development banks can play an important role in this regard, by channelling savings into development investments, by mobilizing private capital for specific projects, by improving capacity and by promoting best practices aligned with sustainable development. One often discussed modality are public-private partnerships (PPPs). The Addis Agenda identifies a number of principles for the use of PPPs, ranging effectiveness and fairness to calls for transparency, accountability, and inclusiveness. Their implications are explored in detail in the full report.

Investment needs are largest in LDCs, yet they are often struggle to attract foreign direct investment (FDI). Concrete measures have been taken to promote FDI in LDCs themselves, including creating enabling environments and providing access to finance for SMEs, in FDI home countries, and by international organizations. ***It is important that such measures are embedded in a broader industrial and sustainable development strategy.*** Greater efforts are also needed to better understand how blended finance instruments can work effectively in LDCs, where private investors face the largest risks, and where the need for public support is arguably greatest.

Increasing investments and other measures can help put the global economy back on a sustainable growth path. But such measures will not suffice, on their own, to eradicate extreme poverty. The Addis Agenda responds to this challenge with a 'social compact', which includes a commitment to social protection floors. A key financing challenge for such floors is the counter-cyclical nature of financing needs, which can be addressed through domestic measures and international support, for example in the form of facilities that quickly disburse financial resources during a crisis.

It is important that these policies are sufficiently robust and carefully designed to reduce women's and men's vulnerability to economic fluctuations. The design of those systems should also recognize and value unpaid care and domestic work, and can even help reduce and redistribute some of this work. More broadly, investment in gender equality and women's empowerment is essential to achieving sustained and inclusive economic growth and sustainable development.

The cross-cutting actions described above are part of the full set of commitments and policies laid out in the action areas of the Addis Agenda. Together, they form a strong basis for implementing the SDGs and achieving sustainable development. The following sections assess the state of implementation in each of them and recommend policy options for accelerating progress.

Domestic public resources

Domestic public finance is essential to providing public goods and services, increasing equity and supporting macroeconomic stability. Effective mobilization, budgeting and use of resources are critical to achieving sustainable development. Both quantity and quality is important, along with accountability and alignment with the SDGs.

As noted in the Addis Agenda, additional domestic resources will be, first and foremost, generated by economic growth. At the same time, improved policies and administration will help realise more efficient and effective resource mobilisation. Tax administration and public financial management capacities have dramatically improved in many countries, and there is strengthened awareness of the link between taxation, expenditure, accountability and the legitimacy of the State. ***To improve revenue collection, Governments should take whole-of-government approaches that emphasize the development of medium-term revenue strategies and stronger enforcement. Greater use of tools to assess tax policy and administration capacity can assist countries in developing strategies.***

Donor countries have historically provided only small amounts of resources for revenue capacity, though in the Addis Agenda they committed to increasing external support to build tax capacity. ***International organizations have put forward recommendations on enhancing the effectiveness of external support in building tax capacity in developing countries. Recommendations include better donor coordination and greater sharing of expertise (see Box 3).***

Peer learning and regional cooperation are key elements of capacity building and the Addis Agenda supports the strengthening of regional networks of tax administrators. ***Development cooperation actors should work in close partnership with regional tax organisations, where they exist, to increase their strength and coverage. Where they do not exist, these should be developed expeditiously.***

As noted in the Addis Agenda, in a world of cross-border trade, investment and finance, there are limits to what can be done by domestic policy alone, necessitating strengthened international cooperation. ***Additional analytical work to analyze spillovers from national tax policies and propose possible mitigating measures is recommended.*** The United Nations Committee of Experts on International Cooperation in Tax Matters is an important mechanism for the development of international tax norms with special emphasis on guidance by and for developing countries. ***Member States should consider nominating qualified tax experts for the Committee's new term, which begins in the second half of 2017.***

International tax norms have important distributional implications, both between the private sector and governments as well as among governments, and thus impact sustainable development and investment. ***The Task Force recommends thorough analysis on the implications for sustainable development of reforms to international tax frameworks. Such analysis will be facilitated by greater availability of national data related to the reforms.***

Increasing revenue mobilisation ability is not enough if countries' resources are simultaneously drained as a result of illicit activity. The Addis Agenda calls for the strengthening of the rule of law and the combatting of corruption at all levels, as well as the elimination of illicit financial flows (IFFs). However measuring and tracking IFFs is extremely challenging, in part because of a lack of an intergovernmental agreement on the conceptual framework defining IFFs. Given the multiple motivations for IFFs, the Task Force has provided a mapping of some of the components of IFFs. ***The Task Force recommends component-by-component and channel-by-channel analysis and estimation, allowing further methodological work and proposals for relevant policy tools and options.***

It is important for countries to strengthen existing institutions and enforcement of the law. ***To more strategically tackle this problem, the Task Force recommends conducting risk and vulnerability assessments to help countries focus their monitoring, implementation, policy and enforcement efforts to the channels most relevant to their country contexts.***

On top of prevention and enforcement, the Addis Agenda calls for the confiscation and recovery of the proceeds of crime and stolen assets to be made more effective. ***The Task Force recommends that States speed up international cooperation on the return of stolen assets to the maximum extent allowable by law, and, recognizing that asset return is unconditional, make efforts to ensure that returned assets are not stolen again.***

To further strengthen the link between taxation, expenditure and the accountability of the State, fiscal transparency is critical. ***The Task Force recommends better disaggregation of budget data, including by sex, to improve tracking of spending related to the SDGs and to speed up efforts to improve transparency, with increased capacity building for countries that need assistance.***

Domestic and international private business and finance

The Addis Ababa Action Agenda calls on businesses to apply their creativity and innovation to solving sustainable development challenges, and invites them to engage as partners in implementation of the sustainable development agenda. Private business activity, investment and innovation are major drivers of productivity, employment and economic growth. The Addis Agenda builds on earlier financing for development outcomes on the role of the private sector, but broadens them in support of all three dimensions of sustainable development.

Public policies set the enabling environment and the regulatory framework for private sector investment and activity. The Monterrey Consensus tasked Member States with building transparent, stable and predictable investment climates, and many countries have made great strides in this area, though more can be done to create competitive businesses environments. In the Addis Agenda, countries resolve to continue this work, while also aiming to better align business activities and investment decisions with sustainable development objectives.

In understanding the role of the private sector in financing sustainable development, it is important to recognize that the private sector includes a wide range of diverse actors, from individual households and international migrants to multinational corporations, and from direct investors to financial intermediaries, such as banks and pension funds. Policy frameworks thus need to be designed with an understanding of the incentive structures of different private actors, and how each comes together in the supply chain of capital. While the large preponderance of private business activity remains profit driven, a growing number of institutions have double or triple (social and environmental) bottom lines. Yet, given the large scale financing needs, as noted in the Addis Agenda, more must be done to better align private business activity and investment with sustainable development.

Domestically, Governments need to support development of both financial depth and breadth. Efforts to ensure inclusive finance can be based on a range of interventions, including the use of new technologies, the promotion of credit registries, and involving a range of institutions (such as microfinance, cooperative banks, and development banks.) ***More countries should adopt national financial inclusion strategies (NFIs). Countries should also continue to share experiences of financial inclusion, including for women, through regional and global forums, such as the Financing for Development Forum, and through the Alliance for Financial Inclusion. Moreover, countries should develop financial literacy programs, including an emphasis on the impact of finance on sustainable development.***

One of the biggest challenges policymakers and stakeholders face in raising resources for sustainable development is how to address excessive short-term oriented decision-making and develop financial markets that are inclusive, long-term oriented, and that support sustainable development. ***The Task Force has begun work on mapping out incentive structures of different actors in the financial system, and will continue to develop this work.*** Task force members will work on different elements of sustainable financial market development. ***The Addis Agenda emphasizes that the different elements of sustainable financial market development are integrated. The Task Force can thus be a platform for building collaborative solutions amongst its members.***

Long-term investment, sustainability and stability of the financial system should be mutually reinforcing. Moreover, without a long-term perspective, firms won't incorporate long-term risks, such as climate change, into their investment decisions. ***Efforts by the private sector to better align their internal incentives with long-term investment and with sustainable development indicators should be supported, as should UN system initiatives (such as the Global Compact, the Sustainable Stock Exchange Initiative, Principles for Responsible Investing, and the UNEP Inquiry.)***

However, even with long-term horizons, markets may provide insufficient financing in sectors important for sustainable development. This typically happens when market prices do not reflect the full economic cost of environmental and social externalities, and when risk-adjusted financial returns are not sufficient to attract adequate private investment. It is thus the responsibility of policy makers to set the appropriate incentives, which can be done through targeted interventions. ***This can be achieved through a package of taxes and subsidies to change relative prices, regulations and standards to guide investment behavior, and appropriately-designed risk-sharing instruments, including co-investments, public-private partnerships, and guarantees, depending on country priorities.***

Corporate sustainability benchmarks, which rank companies on their performance across a range of indicators, have been developed as part of voluntary initiatives. With the adoption of the SDGs, there is an opportunity to align these benchmarks to the goals, which would allow companies to take an active role in their implementation. ***The UN and the FfD process can provide a forum, with multi-stakeholder inputs, for discussions on methodologies for corporate sustainability benchmarks aligned with sustainable development.***

Member States will be presenting voluntary reviews of their progress on implementing the SDGs through national sustainable development strategies. The Addis Agenda calls for these strategies to be supported by "integrated national financial frameworks." National strategies, supported by financing frameworks, can be seen as guideposts for investment priorities, and can showcase opportunities for partnerships. ***Member States may wish to consider a global mapping of priority investment areas contained within national development strategies as a way to guide private investors, both foreign and domestic, for SDG linked investment opportunities. This will also help support the development of pipelines of investable projects.***

International development cooperation

Implementing the 2030 Agenda places significant demands on public budgets and capacities and developing countries, in particular the poorest and most vulnerable. These demands were exacerbated in 2015 by a number of weather- and climate related disasters, conflict and large scale humanitarian crises.

In the face of these rising needs, international public finance increased between 2014 and 2015. Official Development Assistance (ODA) increased 6.6 per cent in real terms, to reach USD 131.4 billion. But net of humanitarian aid and spending on refugees it remained broadly flat in recent years and continues to fall far short of commitments. ***ODA providers should work to fulfil the commitments they have made.*** LDCs have seen an increase in ODA inflows in real terms, in line with Addis commitments to reverse the decline in ODA. ***It will be important that projected additional increases in ODA to LDCs in the coming years be realized, so as to meet respective commitments.*** Other vulnerable countries – for example those small-island states that have graduated from access to concessional windows – struggle to access sufficient official financing.

Lending by multilateral development banks has increased, with MDBs taking important steps to address this dearth of financing for vulnerable countries. In the context of the International Development Association's 18th replenishment, the World Bank Group is increasing the flexibility of graduation policies and of terms of project-specific financing for potentially transformative projects. ***As more developing countries pass per capita income thresholds, additional efforts will need to be made to broaden eligibility criteria for concessional financing that more accurately reflect continued vulnerabilities.***

Partial data indicate that South-South cooperation efforts are making inroads across a wide range of financing, including in climate, humanitarian and infrastructure spending, and other means of implementation. Two newly established Southern-led multilateral development banks began their operations. ***With its emphasis on developing country ownership, South-South cooperation should be further leveraged to strengthen the means of implementation of the 2030 Agenda.***

Urgent needs associated with a number of large scale humanitarian crises command an increasing share of development finance. While humanitarian finance remains vastly insufficient, and more international support will be needed for emergency responses, there is also a need for greater focus on increasing the supply of concessional resources for long-term investment in resilience building and sustainable development. Allocating more development finance to emergency responses must not divert resources from long-term investments in sustainable development. ***Development cooperation providers should commit to protect and increase concessional development financing net of humanitarian financing and spending on refugees.*** New funding modalities are also being developed and beginning to be deployed both for crisis prevention and ex post support. ***Further analysis on the current scope and gaps of both crisis prevention and alternative funding mechanisms, including better use of public and private insurance for natural disasters, is warranted.***

The broadening of global development priorities in the 2030 Agenda is changing the sectoral allocation of development cooperation, including through a greater focus on how the private sector can be effectively engaged. As the use of modalities such as ***blended finance grows, it is critical that their deployment is assessed on a case-by-case basis, with risks and returns shared fairly, as called for in the Addis Agenda. Careful consideration should be given to the overarching principles of development effectiveness, in particular strong country ownership, aligning programmes and projects with country priorities, and transparency .***

Progress is being made in enhancing the quality and effectiveness of international development cooperation, and in aligning it with sustainable development. Nonetheless, there are areas with significant potential to increase coherence. ***At the country level, implementing well-defined national development cooperation policies, linked to a country's national sustainable development strategy, has been identified as a practical enabler of more accountable and effective development cooperation***.

The United Nations system is also moving to implement a more coherent approach in response to the 2030 Agenda, including through guidance provided by the Quadrennial Comprehensive Policy Review resolution adopted in December 2016. ***Culminating a two-year dialogue among Member States, the 2016 QCPR provides a framework to reorient the UN system as a whole towards improved effectiveness and impact in the implementation of the 2030 Agenda.***

International trade as an engine for development

As noted in the Addis Ababa Action Agenda, international trade is an engine for inclusive economic growth and poverty reduction, and is a means of implementation for the sustainable development goals. It has been a significant source of public and private finance in developing countries. The decades before the 2008 global financial and economic financial crisis saw significant expansion in world trade. During this period, rapid trade growth contributed to a steady improvement in many countries' income generating capacity, which helped reduce extreme poverty. More recently, however, trade growth has slowed significantly, as outlined in the global context chapter. Faced with the current challenging scenario in international trade, the trade-related commitments in the Addis Agenda – which include measures to strengthen the multilateral trading system, facilitate international trade, and promote policy coherence in trade – take on new importance.

It is important to recognize that trade has distributional effects. To contribute to the Sustainable Development Goals (SDGs), trade must become more inclusive and beneficial to all, and create wealth and decent jobs, especially for the poor. ***Governments should work together to resist inward-looking and protectionist pressures, and to ensure that the benefits of trade are spread more widely and equitably. International institutions should work with Governments to address any distributional effects of international trade and trade agreements and promote world trade growth that is consistent with the SDGs.***

Increased uncertainty in world trade disproportionately harms LDCs and small economies. ***Governments should work towards improving market access conditions for the exports of LDCs, LLDCs and SIDS by reducing the trade costs facing them and simplifying and harmonizing preferential rules of origin. In addition, increasing Aid-for-Trade aimed at value addition and economic diversification can contribute.***

To date, small- and medium-sized enterprises (SMEs) are not benefiting sufficiently from the international trading system. ***Governments, with support from the international community where necessary, should ensure that SMEs have access to adequate and affordable trade finance, including by reducing limitations that hinder access, increasing the size of publicly-backed trade finance programmes where possible, increasing capacity building and support in the local banking sector, and maintaining an open dialogue with trade finance regulators.***

Higher wages for female employees are likely to have knock-on effects on the wider economy. Women's participation in international trade supports several SDGs, but has been constrained by a number of challenges. ***To further efforts to address the constraints on women's participation in trade, the international community should work collaboratively to enhance the availability of gender-disaggregated economic and social data in this field.***

Non-regulated trade can undermine the livelihoods of people, species, and ecosystems. ***Governments should collectively reduce non-regulated trade such as poaching and trafficking of protected species and hazardous waste, among others.***

The eleventh World Trade Organization (WTO) ministerial conference will be held in Buenos Aires, Argentina, in December 2017. A positive outcome will help affirm the importance of the multilateral trading system. Discussions on the issues that can inform the ministerial decisions of the conference are ongoing. ***WTO members should take action on issues that are linked with the implementation of the SDGs, including public stockholding for food security, reductions on domestic support in agriculture, and the prohibition of certain fishery subsides that cause overfishing and overcapacity as called for in the Addis Agenda. The outcome of the United Nations Oceans Conference in June 2017 should provide impetus towards agreement on fishery subsidy disciplines at the WTO***.

An enabling environment for inclusive trade growth calls for policy coherence at all levels. In the Addis Agenda, Member States committed to strengthen the coherence and consistency among bilateral and regional trade and investment agreements, and to ensure they are compatible with

WTO rules. Regulatory harmonisation, often sought through free-trade agreements, can offer benefits. ***Governments should reduce the potential for regulatory measures in the areas of food, health, environment, and labour policies to inadvertently act as non-tariff barriers to exports from developing countries.*** The Addis Agenda also commits to strengthen the role of UNCTAD as the focal point within the United Nations system for the integrated treatment of trade and development, and interrelated issues in the areas of finance, technology, investment and sustainable development.

Debt and debt sustainability

Global gross public and private debt of the non-financial sector reached a record high in 2015, due to both increases in public debt and continued high levels of private debt. Changes in the composition of debt – including elevated levels of corporate debt in a number of emerging market economies – pose additional risks to an already fragile global economy. In developing countries, although debt ratios remain significantly below their levels in the early 2000s, debt levels have shown a rising trend of late. A much less favourable external environment, the impact of the global economic and financial crisis, and additional risks, such as commodity price shocks and increase in bond issuances in frontier markets, have contributed to renewed increases in aggregate debt ratios and risks to debt sustainability in a number of countries, including some least developed countries (LDCs) and small island developing States (SIDS).

Rising levels of domestic debt highlight the importance of public debt sustainability assessments. To effectively carry out such assessments, it is important to ***improve the comprehensiveness, reliability, and timeliness of domestic and external debt data, as well as data on government assets and contingent liabilities.***

Assisting developing countries 'through coordinated policies aimed at fostering debt financing, debt relief, debt restructuring and sound debt management, as appropriate' (Addis Agenda, paragraph 94) is thus as urgent as ever. Indeed, the goal of debt sustainability has been one of the salient features of the Financing for Development process, which recognises borrowing, both by governments and private entities, as an important tool to finance sustainable development investments.

While there has been notable progress in a number of areas, implementation of this policy agenda remains incomplete. The focus to date has been on sovereign debt management, debt crisis prevention and on market-based solutions for sovereign debt restructuring. International organisations provide technical assistance for upstream and downstream debt management. Debtor-creditor engagement issues are under discussion, including in the context of the IMF revisions of its lending-into-arrears policy. There is also work in the UN toward a platform for debtor-creditor engagement between sovereigns and its private creditors, which should be taken forward. Separately, the IMF is also working on improving information on sovereign debt restructurings. Bi-lateral official and multilateral creditors have set up new facilities to provide debt relief in the event of natural or public health disasters. There is also renewed interest among policy makers in state-contingent debt instruments. However, establishing investor confidence in these instruments remains a challenge. ***A case can be made for public creditors to increase the use of state-contingent instruments in their lending, building on existing experiences by some donors.***

With regard to private creditors, significant progress has been made in incorporating enhanced collective action and pari passu clauses in sovereign bond contracts, with the stock of bonds without clauses beginning to decline, albeit slowly. The importance of providing "breathing space" to a sovereign at the time of debt distress has been highlighted in the policy debate, but remains to be fully addressed. In addition, work on contractual technology for bank loans is lagging behind. While the share of bond debt in total debt has increased over time, for many developing countries commercial bank loans remain the pre-dominant source of external financing. In this context, ***further work on commercial bank loan contracts is thus warranted.*** In a new development, a few jurisdictions have passed or debated legislation to discourage hold-out creditors in a bond debt restructuring by limiting creditors' potential profits from secondary market purchases. Yet, significant concerns surround the operation of creditors buying distressed debt on secondary markets, and whether their activity may go beyond the desirable function of providing market liquidity. Further policy actions to deal with hold-out creditors in a debt restructuring should be considered.

Concerns remain both over the efficiency and equity of these solutions. In the Addis Agenda, countries committed to work toward a global consensus on guidelines for debtor and creditor responsibilities, building on existing initiatives such as the UNCTAD principles on responsible borrowing and lending. This work is continuing, including in the United Nations and the G20. ***The ECOSOC Forum on Financing for Development follow-up could be a useful forum to take up these discussions, in continued cooperation with the international financial institutions, in particular the International Monetary Fund, relevant United Nations entities, including the United Nations Conference on Trade and Development, and other relevant entities.***

Addressing systemic issues

The 2008-9 global economic and financial crises underscored how systemic risks can undermine progress toward poverty alleviation and development. Today, risks in the global economy, as highlighted earlier in this report, underscore the seriousness of the systemic challenges facing the international community in its efforts to achieve the 2030 Agenda. As repeatedly demonstrated by the transmission of financial crises, events in one country can have effects across borders, impacting jobs, employment, and growth. There are cross-border spillovers from social and environmental systems as well. For example, instability, crime, poverty and inequality have the potential to provoke extremism or drive irregular migration, both of which have cross-border implications.

International cooperation is essential to address these risks. Indeed, such cooperation can boost the economic, social and environmental performance of all countries. For example, the actions of the G20 in the wake of the 2008 financial crisis helped contain the crisis, and global financial regulatory standards have helped improve the financial safety of all countries. Similarly, cooperative efforts towards social development produce results in the near-term and prevent costlier problems and instability in the future, while efforts to improve environmental sustainability are often only effective with joint actions across borders.

While important steps have been taken to reduce vulnerabilities in the international system and increase the voice of developing countries, the Addis Agenda states that more needs to be done. Continuing these efforts, while further aligning international institutions, most of which were not designed with sustainable development as a goal, to support the agenda are at the heart of this chapter on addressing systemic issues.

The United Nations development system is moving to implement a more coherent approach aligned with sustainable development, as are other regional and global organisations, though efforts are more advanced in some institutions than others. ***All regional and global organisations, especially those with norm-setting functions, should continue efforts to align their strategies, policies, and practices with the Sustainable Development Goals.*** While the IATF will continue to report on the coherence of international systems, ***international organisations' self-assessments of coherence with the sustainable development agenda, reporting to their own governance mechanisms, could contribute. Additional standard-setting bodies that are not currently part of the follow-up process could be invited to voluntarily join this effort through the IATF platform.***

The Addis Agenda recognizes the need to further strengthen the global financial safety net to ensure that no one is left behind. ***Member States should work to remove gaps in the global financial safety net's coverage, ensure adequate levels of financing, increase its flexibility and strengthen its counter-cyclicality.*** The world continues to face large and volatile capital flows, which the Addis Agenda acknowledges can be dealt with through necessary macroeconomic policy adjustment, supported by macroprudential policies and, where appropriate, and capital flow management measures. ***Greater international macroeconomic coordination, including cooperation between capital flow source and destination countries, can help reduce the impact of spillovers and financial flow volatility.***

Financial reforms need to achieve and maintain the right balance among stability, safety and sustainability, while also promoting access to finance. Much technical work has been done on financial reform and adopting macroeconomic policies to protect against future financial crises, though the regulatory reforms are not yet complete and more needs to be done. ***Efforts to implement already agreed financial regulatory reforms should be sped up and strengthened.*** However, the efficacy of these reforms has not yet been tested, with some indicating that they are not sufficient, while others have called them too onerous. The Addis Agenda also underscores the importance of monitoring the impact of financial regulation on incentives for financial inclusion and investment in sustainable development. Work is underway, particularly at the FSB, to develop a framework for the post-implementation evaluation of the effects and any unintended consequences of financial regulatory reforms that will guide analyses of whether the reforms are achieving their intended outcomes. At the same time, the efforts to include all dimensions of sustainable development into the financial reform agenda are still in their infancy. ***Member States may wish to endorse the FSB's efforts to evaluate the effects of agreed post-crisis reforms on the resilience of the global financial system. Member States may also consider a broader examination of the extent that all incentives in the financial system are aligned with sustainable development and balance the goals of access to finance, sustainability and stability.***

Finally, governance of global systems should reflect changes in the global economy and be responsive to the risks faced in all parts of the world. In the Addis Agenda, Member States recommitted to increasing the voice of developing countries in international economic-decision making and norm-setting processes, including at the Basel Committee on Banking Supervision and other main international regulatory standard-setting bodies. The existing regular reviews of governance at the World Bank and IMF are meant to address this. Other international organisations are also implementing reforms, though progress is uneven. ***Periodic processes to examine governance structures at global and regional organisations, with the goal of strengthening the voice of developing countries, would help meet commitments***.

Science, technology, innovation and capacity building

Technology and innovation are at the heart of economic, social and environmental development. Over the past several decades there has been important progress in access to many technologies, particularly in information and communication technology. Nonetheless, two years after the adoption of the Addis Agenda, access remains uneven within and between countries, with the greatest growth in technology investment occurring mainly in developed regions and select developing countries. Substantial divides in access rates to certain technologies, for example the internet, persist between men and women as well as between urban and rural areas.[4]

Knowledge and technology transfer from developed to developing countries is a necessary part of ensuring access to technology, since many technologies are initially developed in industrialized countries. However, the conventional view that technology is developed in the North and simply transferred to the South is misleading. Technology transfer involves more than the importation of hardware: it involves the complex process of sharing knowledge and adapting technologies to meet local conditions. The STI performance of a country, as well as its economic and social impact, are affected by the quality and level of interactions and flows of knowledge between agents in the innovation system— such as firms, universities, research centres, public agencies and intermediate organizations. These interactions are enabled by infrastructure, market forces and public policies. The systemic nature of the innovation process underlines the need to incorporate scientific and technological knowledge into national development strategies and plans in order to make effective use of innovation.

The Addis Agenda thus speaks both to building domestic capacities for innovation, as well as to the role of international cooperation and support. Building an innovative economy is based on a range of actions, including interactive learning, information exchange, timely availability of finance and other resources, and effective collaboration among the private sector, universities, research centres, policymakers and other actors, as well as improved governance. **Countries should work to develop national strategies for science, technology and innovation (STI) that comprise policy, regulatory, and institutional frameworks that strengthen the enabling environment and enhance interactive learning, along with the strategic allocation of resources and adequate infrastructure.**

In response to the subdued and somewhat pro-cyclical nature of public spending for research and development (R&D) in some countries, **governments should introduce policies to ensure that government spending on R&D remains stable and long-term oriented. At the same time, they should use a variety of tools to incentivize greater private investment.** Some progress has been made on the Addis Agenda commitment to consider setting up innovation funds where appropriate. **More efforts in this area are encouraged at the subnational, national, regional and global levels.**

At the international level, Member States committed to support the efforts of developing countries to strengthen their scientific, technological and innovative capacity. ODA for research and development to African countries, LDCs and LLDCs increased modestly since the financial crisis. There is also scope to strengthen and leverage South-South cooperation in promoting STI development. In 2016, the United Nations held the first Multi-stakeholder Forum on Science, Technology and Innovation for the Sustainable Development Goals as one element of the Technology Facilitation Mechanism and established the Technology Bank for LDCs. **For the Technology Bank, it will be critical to establish the financial base as soon as possible to ensure that all LDCs can benefit from the new institution.**

[4] http://www.itu.int/en/ITU-D/Statistics/Documents/facts/ICTFactsFigures2016.pdf

Capacity building is an integral part of the global partnership for sustainable development. The data on international funds for financial and technical assistance to African countries, LDCs, LLDCs and SIDS indicates a recent decline in disbursements for capacity building to all four country groups. **ODA providers should aim to step up their contributions for capacity building in the context of fulfilling their overall commitments. Efforts at peer learning should also be stepped up.**

Data, monitoring and follow-up

The final chapter of the Addis Ababa Action Agenda emphasizes the importance of high quality disaggregated data for policy making and for monitoring progress of implementation of the Addis Agenda and the 2030 Agenda. The 2016 ECOSOC Forum on Financing for Development Follow-up endorsed the Task Force proposal to develop an online annex to compile and analyse all relevant data in a comprehensive manner. The creation of the online annex has been a major undertaking of the Task Force in 2016-17. The annex contains the most up to date data across chapters, with an emphasis on tracking all flows for financing sustainable development. However its coverage remains uneven due to incomplete data.

While there is a rich variety of data sources available for monitoring the Financing for Development outcomes, official data sources' coverage of commitments and actions is mixed. In some areas there is robust tracking of financing flows with clear information on a to-whom-from-whom basis, while in others data can be missing, delayed, not-comparable or not easily validated, at both national and international levels.

Compared to the SDG indicator process, the elaboration of the monitoring framework for the Addis Agenda and Financing for Development outcomes has been agency driven. This has made the reporting less formalised, but has also meant that the closing of data gaps on FfD follow-up may not be sufficiently prioritized within the global agenda. In the Addis Agenda, Member States recognise the need for strengthening financing and related data, and request the Statistical Commission, working with the relevant international statistical services and forums, to facilitate enhanced tracking of data on all cross-border financing and other economically relevant financial flows. Nonetheless, questions remain about the appropriate framework for dealing with the data challenges related to FfD. The Statistical Commission promulgates statistical standards and oversees the work of the SDG indicator development. It often relies on related fora of experts to undertake the development of statistical standards and measures in specific statistical domains. For example, some of the information and data necessary for follow-up on the Addis Agenda are collected by central banks and other bodies, and not by the national statistical offices that are represented on the Statistical Commission.

The on-line annex will include boxes on data gaps, which will be consolidated in the data section. ***Member States could consider strengthening support, including funding, to the Task Force to allow it to intensify its work on closing reporting gaps, as well as to provide additional analytical tools to present available data in more accessible or policy-relevant formats.*** To go beyond this inter-agency effort, which focuses on compiling and presenting existing data, ***Member States would need to indicate whether they want the framework for data collection and the data gaps related to Financing for Development to be presented to the Statistical Commission in the near term, and if so what the preparatory mechanism would be .***

The Addis Agenda, like the 2030 Agenda, prioritizes the development of data and statistical capacity. The Cape Town Global Action Plan for Sustainable Development Data provide a framework for discussion on, and planning and implementation of statistical capacity building necessary to achieve the scope and intent of the 2030 Agenda. ***Resources invested in data capacity building and production should be strategically allocated to benefit a large number of States. On their part, potential recipients of assistance that do not yet have them should develop national statistical plans.***

The Addis Agenda emphasises the interoperability of data and standards. ***Countries should consider how to speed-up implementation of the Data Gap Initiatives' recommendations related to national and international sharing of granular data.***