HIGH-LEVEL POLITICAL FORUM ON SUSTAINABLE DEVELOPMENT

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Financing the SDGs: Moving from words to action

From the ECOSOC Financing for Development Forum to the General Assembly High-Level Dialogue on Financing for Development

Monday, 15 July 2019, 9:00 AM–11:00 AM, Conference Room 4

Background Note

Overview

Aligning financing and all means of implementation for the 2030 Agenda will require significant reshaping of public polices and financial systems in line with sustainable development. The challenge is driven by both the scale of financing needed to achieve the SDGs and the necessary shift in public and private incentives towards long-term horizons for sustainable development. This will require action from the local to global levels, and by diverse stakeholders. In the intergovermentally agreed outcome document of the 2019 ECOSOC Financing for Development Forum, UN Member States agreed on the need to align a wide range of financing sources and instruments with the 2030 Agenda as part of their implementation of the Addis Ababa Action Agenda.

This session will convene experts to share lessons and make concrete recommendations for how some of the key ideas contained in the outcome document of the 2019 ECOSOC Financing for Development Forum could be translated into reality, including on:

- *Sustainable investment*: Member States welcomed the growing interest among investors in taking sustainability issues into account in their investment decisions, but acknowledged that further work is needed to analyse, monitor and measure its contribution to the Sustainable Development Goals and maximize its positive developmental impact. Public policies and regulations are fundamental in incentivizing long-term SDG investing and dis-incentivizing business activities that are not aligned with the SDGs. Some of the efforts identified for improving incentives for such investment include more meaningful disclosure on sustainability issues, clarifying fiduciary issues and asset owner preferences and pricing externalities. Other measures entail strengthening policy frameworks to incentivize finance for productive investment and addressing challenges to scale up investments in infrastructure, especially in the project design and preparation phase.

- *Domestic resource mobilization*: Member States recognized the importance of transparent fiscal systems in combating inequality, acknowledged the progress made on international tax cooperation, and recommitted to strengthening the capacities of revenue administration through modernized, progressive tax systems. While there are positive signs of increased tax revenue in some countries, a large gap remains between public resources and financing needs, especially in the LDCs. To advance progress countries will continue to explore the use of medium-term revenue strategies and called for strengthened international cooperation, with additional donor support for technical assistance and capacity-building in resource mobilization. Development cooperation has a larger role to play in coming years in response to increasing demands of developing countries for capacity support in this area. They stressed that international tax cooperation should be universal in approach and scope and take fully into account the needs and capacities of all countries.

- *Illicit financial flows*: Member States recommitted to addressing the challenges of illicit financial flows (IFFs), which reduce the availability of resources for financing sustainable development and impact the economic, social and political stability and development of societies. The scope and complexity of IFFs and the continued need for the recovery and return of stolen assets necessitates international cooperation. Action is not contingent on improvements in the estimates of the volume of IFFs. The urgency to prevent and counter IFFs and speed up the return of stolen assets requires national and collective action by authorities and institutions working across siloes (e.g., financial crime, tax policy and enforcement, customs, anti-corruption and transnational crime).

Guiding questions

- What are the opportunities for improving the composition and allocation of financing to maximize sustainable development impact at the national and global levels? What concrete initiatives and tools could be used to promote sustainable investments where they are most needed, such as in the least developed countries (LDCs)?
- What are the key impediments to long-term investments for sustainable development? Which national strategies and policies have proven effective in facilitating long-term and quality investment?
- How can tax systems be strengthened to ensure that countries mobilize domestic resources more effectively? What policies lead to improved progressivity of fiscal systems to address inequalities in a context of inclusive growth? How can development cooperation be leveraged to better support these efforts?
- What are the major gaps and challenges hindering global action on stemming illicit financial flows? How can international cooperation strengthen good practices on promoting timely recovery and repatriation of stolen assets to foster sustainable development?

Background[1]

The world is being changed by rapid shifts in geopolitics, technology, climate and other mega trends. Some such shifts have been positive. Extreme poverty continues to decline and inequality between countries has fallen. Investment in some countries and regions has strengthened after a period of slow growth. Carbon prices are slowly recovering and there is growing interest in sustainable investing.

At the same time risks and challenges are materializing or intensifying that could undermine such progress and hinder countries' ability to finance the SDGs. Debt risks

[1] 2019 Financing for Sustainable Development Report

are rising, with a growing number of least developed and other vulnerable countries either in or at high risk of debt distress. Some countries have experienced significant capital outflows, with aggregate net outflows of over $200 billion from developing countries expected in 2018. Official development assistance is falling, with net bilateral aid from DAC donors to LDCs and Africa declining by 2.7 and 4 percent respectively.

The Addis Ababa Action Agenda provides a global framework for financing sustainable development and strengthening collective action to address global challenges and contextualizes SDG 17 – "Strengthen the means of implementation and revitalize the global partnership for sustainable development" -- with concrete policies and actions. While globalization and technological change have contributed to reducing extreme poverty at the global level, uneven distribution of the benefits has left many behind and undermined support for the global architecture. The multilateral system is under stress. And yet, in this difficulty may lie opportunity. To achieve the 2030 Agenda, global solutions need to be complemented by national actions.

At the national level, many countries have reinvigorated their sustainable development strategies in line with the 2030 Agenda. Yet, many strategies do not have concrete or comprehensive financing plans to fund their implementation. Countries should consider developing integrated financing frameworks to align and mobilize all sources of financing in support their national development strategies. The international system should continue to support countries in this area. Financing policies do not work in isolation. Integrated financing frameworks need to respond to the realities of a changing global landscape, but the international community also has a responsibility, spelled out in the Addis Agenda, to improve the international enabling environment for sustainable financing.

To foster the long-term perspective needed for achieving sustainable development Governments, the private sector, and civil society will need to work together. Yet, greater global uncertainty could encourage more short-term behaviour. For example, private businesses – which already face numerous short-term incentives – could hesitate to fund long-term investment projects. Further, policymakers are often guided by short-term political cycles. Actions are needed at all levels. Nationally, integrated financing frameworks provide a basis for long-term policymaking beyond political cycles. For private investors and businesses, achieving the SDGs will require embracing long-term investment horizons and sustainability as key concerns in their decision-making. Strengthened collective action can help reduce global uncertainty.

Financial innovations can generate significant progress across the 2030 and Addis Agendas. New technologies and innovation can improve the functioning of markets. Financial technology (fintech) can enhance access to finance. Big data can contribute to better policymaking. New instruments, strengthened sustainability reporting, and innovative policy solutions can enable a growing number of investors to pursue financial returns with positive sustainable development impact. But financial and sustainability risks do not disappear with innovative forms of financial intermediation—credit risk still needs to be managed, and new technologies give rise to new risks. Policymakers and regulators will need to strike a balance between managing emerging risks and enabling experimentation and innovation.