



Financing for Sustainable Development Report 2023

Inter-agency Task Force on Financing for Development

Financing Sustainable Transformations



United Nations

Report of the Inter-agency Task Force
on Financing for Development

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This report is a joint product of the members of the Inter-agency Task Force on Financing for Development. The Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs serves as the coordinator and substantive editor of the Financing for Sustainable Development report.

The online annex of the Task Force (<http://developmentfinance.un.org>) provides additional data and analysis on progress in implementation of the Financing for Development outcomes, including the Addis Ababa Action Agenda and relevant means of implementation targets of the Sustainable Development Goals.

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Federal Ministry
for Economic Cooperation
and Development

The production of this report and the online annex of the Inter-agency Task Force are generously supported by the Federal Ministry for Economic Cooperation and Development of Germany.

How to cite this report:

United Nations, Inter-agency Task Force on Financing for Development, *Financing for Sustainable Development Report 2023: Financing Sustainable Transformations*.

(New York: United Nations, 2023), available from: <https://developmentfinance.un.org/fsdr2023>.

United Nations publication

Sales No. E.23.I.6

Print ISBN: 978-92-1-101465-5

PDF ISBN: 978-92-1-002611-6

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Overview and key messages



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Global sustainable development prospects continue to diverge. Two years ago, in the midst of the COVID-19 pandemic, the Inter-agency Task Force warned of a global divergence that could lead to a lost decade for development. By 2022, these risks had materialized—a great finance divide was translating into a development divide. Over the past 12 months, the war in Ukraine, sharp increases in food and energy prices and rapidly tightening financial conditions further exacerbated challenges for many countries, increasing hunger and poverty and reversing progress on the Sustainable Development Goals (SDGs). Despite some positive signs, the global macroeconomic outlook remains highly uncertain and particularly bleak for many of the poorest and most vulnerable countries faced with growing debt service burdens and tight fiscal constraints. Recent banking failures in the United States and Switzerland have once again highlighted gaps in financial regulatory and supervisory systems. In today's extremely challenging global macroeconomic context, financing and sustainable development prospects are diverging even more sharply.

If left unaddressed, the finance divide will translate into a lasting sustainable development divide. SDG financing needs are growing, but development financing is not keeping pace. There is a continued need for immediate and increased international support for vulnerable countries, including many least developed countries (LDCs), African countries and small island developing States (SIDS). At the same time, low levels of investment, particularly in many developing countries, are entrenching the development divide. Delaying investment in sustainable transformations would put the 2030 Agenda for Sustainable Development and climate targets out of reach and exacerbate financing challenges down the line.

Delaying investment in transformation is thus not an option. The multiple crises can shorten the time horizons for decisions—by policymakers, investors, businesses and

individuals. Yet, the crises once again underline the need for a long-term focus on resilient, sustainable and inclusive development. Delaying investments would put the 2030 targets out of reach and exacerbate financing and macroeconomic challenges down the line. Sustainable and productive investments today can transform and diversify economies and enhance resilience to shocks, including inflationary supply-side shocks, tomorrow. As laid out in the *2022 Financing for Sustainable Development Report*, such investments also enable countries to mobilize resources over time and better service debt. This is why the 2023 Task Force report focuses on sustainable transformations, including a roadmap for governments, along with changes in the way finance works.

Both national and international actions are needed to scale up SDG financing. National and global policy frameworks shape incentives, impact risks and influence financing needs and flows. Recent global shocks have placed enormous pressure on global institutions and governance. Enhancing relevant global policy frameworks is critical to enabling progress on financing. However, on their own, reforms to the international system will not deliver sustainable development. Countries need to chart their own paths to achieve the SDGs. This is embodied in the Addis Ababa Action Agenda and the revitalized global partnership for sustainable development, which gives each country primary responsibility for its own development but tasks the international community with providing a conducive international enabling environment and support.

The series of global shocks and overlapping crises have increased the risk of further geoeconomic fragmentation and raised the urgency for reform. But they have also led to momentum for reform and calls for rapid institutional change. In the face of a unique confluence of challenges, this report calls on the international community to take advantage of this moment and undertake concerted efforts to finance the

timely realization of the SDGs through: (i) immediate measures to scale up development cooperation and SDG investments; (ii) strengthening the international financial architecture; and (iii) national actions to accelerate sustainable industrial transformations, including through a new generation of sustainable industrial policies.

First, scale up development cooperation and SDG investment

Urgent action is needed to boost all forms of international development cooperation. Demands on international development cooperation are higher than ever. Climate and debt-vulnerable countries require more concessional resources. Humanitarian aid and development assistance is needed to curb growing food crises. Climate finance is not keeping pace with the ratcheting impact of climate change. Official development assistance (ODA) providers need to meet their commitments, and all forms of development cooperation must be scaled up. There is also a need to quickly and adequately support countries in debt distress with the ultimate objective of reducing their debt stock and providing long-term relief.

Concerted efforts are needed to scale up investment in the SDGs and climate action. Public and private investment remains subdued compared to historical levels, especially in most developing countries. The significant scaling up of investment in the energy transition, a bright spot, has remained concentrated in developed countries and China. This dearth of financing motivated the United Nations Secretary-General's call for an SDG Stimulus to significantly increase affordable, long-term financing for development in areas such as infrastructure, education, social protection and sustainable structural transformation.

Second, enhance the international financial architecture

The international financial architecture is in flux, as countries seek to remake international organizations, norms, rules and frameworks. The pandemic contributed to the urgency to revitalize the institutional architecture to match the ambitions of the 2030 Agenda. Discussions on reforms of the international architecture are ongoing throughout the international system, including in informal country groupings, such as the Group of 20 (G20), the Group of Seven (G7) and the Bridgetown Initiative. They are on the agenda of the World Bank and International Monetary Fund (IMF) boards, bodies based at the Organisation for Economic Co-operation and Development (OECD), and elsewhere. At the United Nations, they are part of Our Common Agenda discussions as well as the financing for development process. These efforts to remake the institutions and norms of the financial architecture and related issues range across the full set of action areas of the Addis Ababa Action Agenda, including:

- Creating internationally agreed sustainability norms for private investment and business activities (chapter III.B);
- Evolving the scale and mission of the development bank system (chapter III.C);
- Setting up a loss and damage fund on climate change after decades of discussion (chapter III.C);
- Urgently improving mechanisms for addressing debt challenges, such as through the Common Framework, state-contingent debt instruments and other mechanisms (chapter III.E);

- Scaling up and accelerating the channelling of the historic allocation of special drawing rights (SDRs) to countries in need, including through IMF funds and development banks (chapter III.F);
- Rewriting international tax norms, particularly rules for taxing digitalized and globalized business and digital assets (chapter III.A);
- Intensifying multilateral dialogue on current multilateral rules and agreements on investment, trade (chapter III.D) and technology (chapter III.G) to ensure a level playing field, balance national interests and reduce negative spillovers from national policies.

These processes hold the potential to arrive at a more coherent and effective international architecture. Discussions and institutional reform processes are ongoing and not complete. They have the potential to close some gaps in the international architecture, align it better with the needs of the twenty-first century, and scale up financing for the SDGs and climate action. However, if they proceed piecemeal, remain partial and do not take the SDGs fully into account, the architecture will remain fragmented and not fit for purpose to deliver sustainable development. The financing for development process at the United Nations provides an opportunity to bring these different strands together. In 2023, the Economic and Social Commission (ECOSOC) Financing for Development Forum will be followed by the SDG Summit and High-level Dialogue on Financing for Development, with the Summit of the Future and the Biennial Summit to take place in 2024. To make the most of these events, discussions should build on each other as part of one process aimed at ensuring the coherence of reforms, and fully aligning them with the SDGs and climate action.

Third, accelerate national sustainable industrial transformations

Reforms to the international architecture and a global investment push must be matched with and supported by coordinated national action. The SDG Stimulus will only succeed if national policies reignite investment in the SDGs domestically. They are two sides of the same coin.

Countries need to strengthen strategic approaches, including through a new generation of sustainable industrial policies and integrated financing frameworks. Industrialization and structural transformation have been historic engines of growth, job creation and technological advancement. The current revival of industrial policies—a response to the climate crisis, the pandemic, but also geostrategic concerns—opens a window of opportunity for countries to pursue sustainable industrial transformations: to build the domestic productive capabilities to achieve low-carbon transitions and create decent jobs and gender equality, along with productivity and economic growth. On the national level, this includes:

- **A coherent sustainable industrial policy strategy aligned with a country's overall vision.** Sustainable industrial policies should be closely linked to national sustainable development strategies, which can be supported by integrated national financing frameworks. They need to be context-specific, responding to a country's binding constraints and institutional frameworks. Integrated planning and financing, e.g., through integrated national financing frameworks, is essential so that countries will be ready to tap into a revamped and more supportive global system.
- **Building a dynamic domestic business sector.** An enabling business environment is no longer sufficient; countries need to build an enabling

sustainable business environment, which includes investment in infrastructure, macroeconomic stability, overcoming credit constraints and getting carbon prices right to incentivize sustainable behaviour. It also requires targeted policies to support firms and address investment constraints.

- **A more expansive toolkit.** Because sustainable industrial transformations need to be directed to the SDGs, they require a more expansive toolkit to create and align incentives for investment in sustainable development.
- **Supporting vulnerable groups that may lose economic opportunities in transitions.** This underscores the importance of *universal social protection systems* as well as targeted support, training and related initiatives, and a focus on rural areas where many of the poor live.

Actions across the Addis Agenda to invest in sustainable industrial transformations can include:

- Creating investment opportunities, e.g., in activities critical to the low-carbon transition;
- Adopting regulatory measures to support development and adoption of technologies;
- Aligning of tax and fiscal systems with sustainable industrial transformation goals, while increasing revenue to finance public investment;
- Combining supply-side instruments such as investment incentives with demand-side strategic public procurement, as well as setting appropriate technology standards to encourage domestic firm development, sustainable innovation and, ultimately, competitiveness;
- Using public development banks and other public funds to support basic research and development, early-stage innovation and broader investment in the SDGs;
- Shaping the private financial sector through regulatory and other measures to encourage long-term financing and aligning it with sustainable development.

Many developing countries will need **capacity and financial support**. The international community can support countries' efforts through **project-specific support**, e.g., through blended finance instruments well aligned with national priorities, and capacity support.

The opportunity

The world is at a crossroads. The risks are further geoeconomic fragmentation and an erosion of multilateralism and a rules-based order, with the most vulnerable and least powerful countries most affected. The opportunity is to reform and strengthen multilateralism through an international financial architecture that delivers on the ambitious global goals set out in 2015, along with national actions to invest in sustainable transformations.

With many systemic reform processes ongoing, the international community needs to deliver on the outstanding promise of the Addis Ababa Action Agenda to create a coherent, mutually supporting world trade, monetary and financial system, while updating commitments to reflect the changing world. This report identifies numerous steps that policymakers can take towards building a sustainable and just world.

About this report

The Inter-agency Task Force's *2023 Financing for Sustainable Development Report* begins with an assessment of the global macroeconomic context (chapter I). It finds that the global economic outlook remains fragile amid a highly challenging environment, with recent shocks having the biggest impact on the most vulnerable. Task Force members are projecting a slow-down in global growth in 2023, but with a wider forecast range compared to the past.

The thematic chapter (chapter II) explores how countries can finance sustainable industrial transformations through a new generation of sustainable industrial policies, responding to requests included in the outcome of the 2022 ECOSOC Financing for Development Forum.

Chapter III.A on domestic public resources highlights that tax systems are foundational to building state capacity and the social contract in which taxpayers contribute resources and in return the government provides valuable public goods and services. It assesses progress in national tax policy and administration as well as how to create gender-responsive tax systems. The chapter recommends strengthening public financial management and expenditure alignment with sustainable development, including fiscal tools relevant for sustainable industrial transformations. It also provides updates on international tax cooperation and combating illicit financial flows.

Chapter III.B on private business and finance reviews measures to improve: i) the enabling environment for business; and ii) the use of policies and financial instruments to incentivize investment in developing countries based on the needs of different types of companies and their contributions to the SDGs. The chapter also discusses measures to make the financial system more sustainable and companies more accountable for their environmental and social impacts.

Chapter III.C on international development cooperation includes an update on the impact of the COVID-19 pandemic and the food, fuel and climate crises on ODA and other forms of development cooperation, including multilateral development bank lending and blended finance. It also covers progress on climate finance. The chapter concludes with a discussion on the development effectiveness agenda in a changed financial landscape.

Chapter III.D on international trade as an engine for development includes an analysis on trade and industrial policy links; trends in international trade, particularly the impact of the war in Ukraine; current issues in the multilateral trading system, including the landmark fisheries subsidy agreement; and strengthening synergies between trade and sustainable development.

Chapter III.E on debt and debt sustainability provides an update on key debt trends and vulnerabilities in the face of difficult global macroeconomic circumstances. It addresses policy issues around debt management and transparency; debt financing and fiscal space for SDG investments; and progress in the policy agenda around debt crisis resolution.

In Chapter III.F on addressing systemic issues, the Task Force provides updates on implementation of financial regulatory reform and reviews risks to financial stability from the non-bank sector. The chapter further discusses digital currencies, the interrelations between climate change and financial stability, macroeconomic management and crisis response, and institutional and policy coherence for sustainable development.

Chapter III.G on science, technology and innovation complements the thematic chapter in exploring how technologies can contribute to sustainable industrial transformation. The chapter further discusses several key emerging technologies, including updates on financial technology and relevant activities in the United Nations system.

In Chapter IV on data and monitoring, the main issues include the latest developments on data frameworks, including the global indicator framework for the SDGs, and beyond GDP metrics; strengthening financing for data and statistics; and data accessibility, discoverability and innovation.

The Task Force is made up of more than 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. The report and its online annex draw on their combined expertise, analysis and data. The major institutional stakeholders of the financing for development process—the World Bank Group, the IMF, the World Trade Organization, the United Nations Conference on Trade and Development and the United Nations Development Programme—have a central role, jointly with the Financing for Sustainable Development Office of the United Nations Department of Economic and Social Affairs, which also serves as the coordinator of the Task Force and substantive editor of the report.