Highlights of the Financing for Sustainable Development Report 2023

Financing Sustainable Transformations

DESA
Financing

Financing for Development

About the Inter-agency Task Force on Financing for Development

The Inter-agency 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 International Monetary Fund, the World Trade Organization, the United Nations Conference on Trade and Development and the United Nations Development Programme—play 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 Inter-agency Task Force and substantive editor of the report.

About the 2023 Financing for Sustainable Development Report

The 2023 *Financing for Sustainable Development Report* of the Inter-agency Task Force begins with an assessment of the global macroeconomic context (chapter I). 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. The remainder of the report (chapters III.A to III.G and IV) discusses progress in the seven action areas of the Addis Agenda, and advances in data. Each chapter gives updates on implementation and lays out the challenges and policy options at both the national and international levels—including in response to the highly challenging global economic environment and climate risks.

The full report is available from: https://developmentfinance.un.org/fsdr2023

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

Highlights of the Financing for Sustainable Development Report 2023

Financing

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Main messages from the 2023 FSDR

1. Sustainable development prospects continue to diverge between developed and developing countries. If left unaddressed, a "great finance divide" will translate into a lasting sustainable development divide.

2. SDG financing needs are growing, but development financing is not keeping pace. The war in Ukraine, sharp increases in food and energy prices, and rapidly tightening financial conditions have increased hunger and poverty and reversed progress on the SDGs.

3. Stakeholders must maintain a long-term focus on resilient and inclusive development, while addressing near-term crises. Delaying investment in sustainable transformations is not an option—not only because it would put the 2030 Agenda and climate targets out of reach, but also because it would exacerbate financing challenges down the line.

4. The series of global shocks have raised the urgency for international reform and led to 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 to align financing with sustainable development. This will entail national and international actions.

First, scale up development cooperation and SDG investment:
These can support the UN Secretary-General's call for an SDG Stimulus.

- Governments should urgently boost international development cooperation.
- The international community needs to scale up public and private investment in the SDGs and climate action, including by strengthening the system of public development banks.

Main messages from the 2023 FSDR

Second, strengthen the international financial architecture:
The international financial architecture is in flux. Discussions and institutional reform processes are ongoing across all areas of the Addis Ababa Action Agenda.

- If efforts proceed piecemeal 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 is an opportunity to bring different strands together, strengthen effectiveness, ensure full alignment with the SDGs and climate action, and provide a platform for all voices.

Third, accelerate national sustainable industrial transformations:
Countries need to chart their own national paths to achieve the SDGs. An SDG Stimulus and national action are two sides of the same coin. The report proposes:

- A new generation of sustainable industrial policies, supported by integrated national financing frameworks; and
- A more expansive toolkit to enable sustainable industrial transformations.

The world is at a crossroads, with systemic reform processes already ongoing. The international community must deliver on the outstanding promise of the Addis Ababa Action Agenda to ensure coherence across international systems, while updating commitments to reflect the changing world, deliver sustainable transformations, and achieve the SDGs.

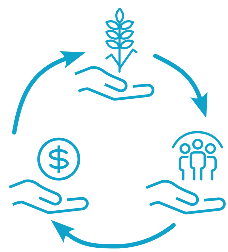
SUSTAINABLE DEVELOPMENT GOALS

Global economic context

1. The global economic outlook remains fragile and challenging.

- Despite some recent positive signs, the baseline outlook is subject to a high degree of uncertainty.
- Global growth is projected to slow to 1.9% in 2023, before picking up to 2.7% in 2024.
- The war in Ukraine triggered a global cost-of-living crisis while countries were still recovering from the pandemic.

2. Recent shocks had the strongest impact on the most vulnerable countries and people.



- The global food crisis has hit vulnerable countries the hardest, entailing large human and economic costs.
- Global progress towards poverty eradication has stalled, with 70 – 89 million more people living in extreme poverty in 2022 compared to pre-pandemic forecasts.
- Global inequality has risen for the first time in decades.

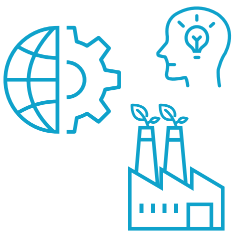
3. Central banks face a policy balance in reining in elevated inflation without derailing growth or triggering financial crises.

4. Prolonged weak investment raises the risk of deeper scarring.

- Weak investment prospects in developing countries follow a widespread slowdown in investment growth over the past decade.
- A strong push towards productivity-enhancing structural reforms is needed to mitigate the scarring effects from recent shocks.

What will it take? Financing sustainable industrial transformations

1. Scaling up investment in sustainable industrial transformation can be the key to rescuing the SDGs. . .



- Industrialization and structural transformation have been historic engines of growth, job creation and technological advancement.
- Efforts to strengthen domestic productive capacities, support low-carbon transitions, create decent jobs, promote digitalization and enhance resilience can drive SDG progress.

2. . . .but needs to be well managed to be sustainable.

- Countries' efforts to spur industrial transformations have a mixed record—including on their impacts on equity, the environment, and sustainable development.
- Lessons must be learned from both failures and successes.

3. There is already an ongoing revival of industrial policies

- Industrial policy measures more than doubled between 2009 and 2019, with much of the growth in developed countries.
- The 2008 financial crisis, the climate crisis, the pandemic, and geostrategic concerns have all contributed to a revival of industrial policies.

4. An expansive toolkit is needed to direct sustainable structural transformation.

- Countries need to create sustainable enabling business environments: good governance, a stable macro-environment, while also creating incentives to invest in sustainable development and combat climate change.
- A wider set of interventions—investment incentives, procurement policies, and technology standards—can spur adoption of sustainable technologies.
- A new generation of sustainable industrial policies should be brought together in nationally owned strategies, which can be supported by integrated national financing frameworks.

What will it take? Financing sustainable industrial transformations

5. However, some people will face insecurity in transitions.

- In many countries social protection systems will need to be strengthened.
- Education and training programmes will be needed to build skills for new sectors.
- Barriers to education for women, migrants and marginalized groups will need to be removed.
- In many least developed countries (LDCs), focus should also be on investing in inclusive rural transformations.

6. Many developing countries will need capacity and financial support.

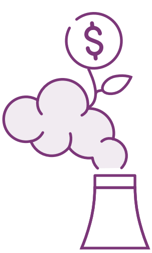
- Limited fiscal space and capacities could limit developing countries' ability to utilize industrial policy tools—and exacerbate divergence.
- Targeted instruments and project-specific support (e.g., through blended finance instruments) can play a role when well aligned with national priorities.
- Expanded provision of concessional finance (e.g., through the SDG Stimulus) would support scaled up public investment in sustainable industrial transformations.
- Countries should aim to develop 'dynamic capabilities'—to continue to learn from initial efforts.
- Systemic reforms in the international financial architecture can help bring down the cost of capital.
- Multilateral dialogue is needed, including for potential adaptation of multilateral trade and investment rules to ensure a level playing field for all countries.

Domestic public resources

1. Tax system capacity reinforces the ability of the public sector to deliver public goods and services, strengthening the social contract and building trust.

- Tax revenues fell in the pandemic and have not recovered at a uniform pace. In Africa, 40% of countries had 2021 tax-to-GDP ratios below 2020 levels.
- On average less than 50% of personal and corporate income tax returns are filed on time in least developed countries, complicating fiscal management.
- Tax administrations should work to simplify registration and compliance to encourage timely filing and payment.
- Digitalization can increase the efficiency of tax administration and assist in detection of tax evasion.

2. Windfall profit taxes can be part of effective tax systems; realized resources can help to address equity challenges.



- The surge in fossil fuel prices in early 2022 generated substantial windfall profits in the energy sector.
- Given the imperative to tackle climate change, governments should allow high energy prices to incentivize a reduction in fossil fuel use while compensating poorer households.
- As windfall profit tax receipts may not be realized in locations facing the greatest burdens from energy prices, developed countries could consider sharing the gains through development assistance.

3. Tax systems have implicit gender biases

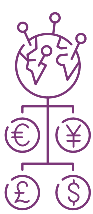
- Only a handful of countries are regularly assessing these biases.
- Studies of specific taxes, the tax mix, and tax administration can help to identify gender-specific barriers and gender-responsive approaches.
- Given gendered wealth gaps, capital income should be taxed at least at the same rate as labour income to avoid a tax system biased in favour of men.

Domestic public resources

4. Tax systems and public spending are powerful instruments to incentivize and support sustainable development, including inclusive sustainable industrial transformation.

- Tax instruments impact behaviour; countries should ensure the incentives align with sustainable development and national goals, such as industrial transformation.
- Tax expenditures (e.g., incentives) can be misdirected and inefficient—they should be reconsidered in light of new global minimum taxes, transparent, and regularly reviewed.
- Integrated national financing frameworks are a planning tool that can be used to enhance coherence across policy areas.

5. The international tax system and financial integrity policies should serve all countries.



- International tax and financial transparency instruments should benefit the least developed countries.
- Each country should decide on its approach to taxing digitalized business models based on their national context and the potential revenue and economic impact.

6. States should speedily adopt tools to prevent and combat illicit financial flows, such as verified registries of beneficial ownership information.

- Governments should aim to publish beneficial ownership information for public access.
- Progress in domestic resource mobilization requires investment in improved tax administration and consistent efforts to build citizen trust in the State.

Private business and finance

1. Foreign direct investment—greenfield investment, cross-border mergers & acquisitions and project finance deals—have all declined since early 2022.

- The recovery of foreign direct investment in developing countries after the 2020 slump remains fragile—projects increased by 3% but their value dropped slightly.

2. Achieving sustainable development requires building a dynamic domestic business sector

- Integrated national financing frameworks (INFFs) can help countries identify barriers to investment and prioritize interventions.
- Policy makers should develop enabling business environments for sustainable development, with conducive legal and regulatory environments and infrastructure aligned with achieving the SDGs.
- Competition policies can enable innovation and also address equity and environmental sustainability.

3. Micro, small and medium sized enterprises (MSMEs) identify access to finance as the main barrier to growth.

- Technology can help overcome credit constraints through fintech and credit reporting and collateral systems.
- Incentives can lower the cost of borrowing, including through international support to domestic banks that on-lend to MSMEs.

4. Policies should also target different types of firms to address specific constraints, using the range of policy tools discussed in Chapter II.

- For instance, development banks (or public or semi-public venture funds) could support innovative companies by using equity-like instruments.
- Investing in entrepreneurial skills and capacity development is critical in many areas.

Private business and finance

5. To move beyond greenwashing, private businesses need to change how they operate.

- Governments should strengthen sustainability reporting requirements.
- Policy and regulatory frameworks need to support and incentivize long-term decisions aligned with sustainability; over 600 investors from 33 countries have called on governments to implement policies to address the climate crisis.
- Sustainable investing should be made more credible, including by improving rating systems, having minimum standards for labelling, and asking clients about sustainability preferences.
- Sustainable bonds can increase SDG investment but need to strengthen accountability.

International development cooperation

1. Limited resources amid massive demands requires prioritization and better targeting of international development co-operation.

- In 2022, official development assistance (ODA) rose by 13.6% in real terms over 2021, underpinned by increased spending on refugees and aid to Ukraine. Excluding in-donor refugee costs, ODA rose by 4.6%.
- Grants rather than loans should be prioritized for LDCs and SIDS, with multidimensional vulnerability criteria used in the allocation of ODA.
- Additional support for refugees, while necessary, must not come at the expense of cross-border ODA flows to countries in need.
- ODA providers should sustain support for social sectors—e.g., health, social protection, and gender equality—to fortify preparedness for future crises.
- Curbing growing food crises requires both humanitarian aid to address immediate needs and development assistance to tackle structural causes of food insecurity.

2. Multilateral development banks (MDBs) play a vital role in meeting heightened demand for resources.

- MDBs need capital infusions and balance sheet optimization to expand lending, as called for the UN Secretary General's SDG Stimulus.
- MDBs should offer very long-term (30-50 years) lending from MDBs with significant grace periods, with all lending aligned with the SDGs.
- To meet growing demands, public development banks should more effectively work as a network.

3. A new approach to blended finance, which uses public resources to leverage private finance, is needed.

- The primary focus of all blended finance deals should be development impact, rather than quantity or degree of leverage.

International development cooperation

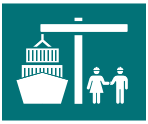
- Blended finance must be aligned with country priorities as part of national sustainable development strategies.
- The cost of all blended finance deals should be assessed vs. other financing mechanisms.
- Capacity development, transparency, participation, and reporting are critical.

4. Climate change impacts are accelerating, but climate finance is not keeping pace with the widening financing gap.

- Only $83.3 billion of climate finance was provided in 2020, a failure to meet the $100 billion climate finance target.
- Efforts to set a new, collective quantified goal on climate finance should be expedited.
- The landmark decision to set up a climate loss and damage fund now needs to be operationalized.
- Country platforms like the Just Energy Transition Partnership can help accelerate climate action and investment.

5. Changes in the financing landscape call for a stronger shared understanding of the development effectiveness agenda.

- A shared understanding of the development cooperation effectiveness principles can influence policy and behaviour of all actors.
- COVID-19 demonstrated the importance of risk-informed development cooperation.
- To enhance country ownership, donors should entrust more ODA to developing countries, including for priorities laid out in national plans supported by INFFs.
- Participation of non-state actors in national development cooperation forums can encourage ODA to better reach marginalised and vulnerable communities.



International trade as an engine for development

1. The war in Ukraine has impacted the trade rebound from the COVID-19 pandemic; the war has also affected food supplies, spurring a global food crisis.

- The growth in global trade in goods and services slowed in early 2023, after reaching a historical high of $32 trillion in 2022.
- High food and fertiliser prices, currency depreciations against the United States dollar, and export restrictions have affected food supplies worldwide.
- LDCs and LLDCs should be prioritised for support, including for trade finance, trade facilitation measures and aid for trade.

2. The impact of the COVID-19 pandemic, digitalization, and climate crisis are bringing renewed attention to the relationship between trade and industrial policy.

- Trade measures can help build or improve the competitiveness of domestic industries, supporting industrial policies.
- The international community needs to update multilateral rules on subsidies in the face of compounding challenges.
- There is risk of a new industrialization divide, unless developing countries, especially LDCs and LLDCs are supported.

3. The trade finance gap continues to widen.

- MDBs and development finance institutions can help scale up trade finance.
- Digital trade finance can also help narrow the trade finance gap.

International trade as an engine for development

4. Discussions in regional and multilateral trading systems are continuing to focus on sustainable development considerations.

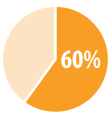
- The new WTO Agreement on Fisheries Subsidies marks an historic achievement by the WTO and will be instrumental in tackling harmful fisheries subsidies.
- Regional trade agreements have expanded, with environment and labour issues increasingly featured.

5. Old-generation international investment agreements (IIAs) need reform because they can constrain States taking measures to combat climate change and protect the environment.

- Under these agreements, there is a high risk of investor-State disputes; in 2021 investors initiated 68 publicly known dispute resolution cases.
- More IIAs are being terminated than new ones signed, with new IIAs including corporate social responsibility.

Debt and debt sustainability

1. Debt challenges show no signs of abating for many poor and vulnerable countries, threatening the achievement of the SDGs.



- Global public debt reached 91% of global GDP in 2022, below 2021 levels, but 7.5 percentage points higher than before the pandemic.
- Around 60% of LDCs and other LICs are assessed at a high risk of debt distress or in debt distress, twice the level from 2015.
- Debt overhangs constrain SDG investments: 25 developing countries dedicate more than 20% of public revenue to debt service; the highest since 2000.
- External financing needs of LDCs remain extremely elevated, at around $120 billion annually over the next five years, more than double pre-pandemic levels.

2. With rising vulnerabilities and a more heterogeneous debt composition, effective public debt management is essential.

- Key priorities include the development and implementation of debt management strategies, domestic debt market development, improved information, and enhanced capacity support for debt managers.
- The international community is scaling up the delivery of capacity development in all areas of public debt management.

3. Enhanced debt transparency is needed; creditors and debtors share responsibility.

- Borrowers should improve legal frameworks and debt recording and reporting.
- Creditors should promote transparent financing practices and refrain from confidentiality agreements.

4. Innovative instruments such as debt for climate swaps or sustainable bonds can mobilize additional resources in countries with sustainable debt burdens.

- A reference framework with template term sheets and performance indicators could help standardize debt swap contracts and reduce transaction costs.

Debt and debt sustainability

5. The international debt resolution architecture needs improvement to incentivize sufficiently deep and rapid restructuring and avoid doing "too little too late."

- The more heterogenous creditor landscape has made restructurings more complex.
- Collective action clauses have helped speed up restructurings by bondholders, but around 50% of outstanding bonds still do not include them; and they do not address how to restructure debt across different types of creditors.
- Majority voting provisions in syndicated loans or most-favoured creditor clauses could help overcome creditor coordination challenges.
- Legislative actions, such as limits on creditors' asset recovery, could complement the contractual approach.

6. The Common Framework should continue to improve, and its coordinated approach expanded to other developing countries that are currently not eligible.

- The Common Framework's slow progress on debt treatments for countries requesting help has undermined confidence.
- Greater clarity on the steps and timelines is needed; creditors' committees should be formed within 8 weeks.
- Debt service should be suspended for the duration of negotiations.
- More clarity is needed on how comparability of treatment between private creditors and official creditors will be implemented and enforced.

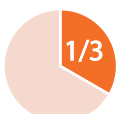
7. It is imperative to further strengthen the debt architecture, to achieve more predictable, timely, and orderly processes for countries in need.

Addressing systemic issues

1. The global financial and monetary systems is not well suited to deliver the financing or stability needed to achieve the SDGs.

- Volatility of financial markets and capital flows complicates macroeconomic management and undermines the stability of currencies and exchange rates.
- Existing rules and governance arrangements for financial institutions and markets have not fully incorporated all three dimensions of sustainable development.

2. The global financial safety net urgently needs to be further strengthened and made fit for purpose.



- The historic 2021 $650 billion allocation of IMF special drawing rights (SDRs) increased countries' reserves, but developing countries received only about one third of the allocation.
- The IMF disbursed $49 billion in loans in 2021 and 2022; the new Resilience and Sustainability Trust agreed to long-term lending of $2.6 billion.
- Governments should quickly re-channel unused SDRs to assist developing countries, including through development banks.
- Regional financial arrangements could increase the available emergency liquidity and give access to more countries with fewer preconditions.

3. Policies in source and destination countries, including macro-prudential and capital flow management policies, can help curtail capital flow volatility.

- Source countries of capital flows should coordinate with destination countries to help reduce volatility.

Addressing systemic issues

4. To address risks from less regulated financial activities, policymakers should ensure a coherent regulatory umbrella using the principle of "same activity, same risk, same rules".

- Total financial assets are almost $500 trillion, with more than 49% in less regulated non-bank financial institutions.
- So-called stablecoins have a market capitalization over $120 billion; total market capitalization of cryptoassets has fallen to under $1 trillion.
- Comprehensive, coordinated and consistent global standards should be applied to all financial technologies and intermediaries.
- Central bank digital currencies (CBDCs) could address long-standing inefficiencies and oligopolies in payment systems, particularly cross-border payments.

5. Regulators and central banks should continue to incorporate climate change and environmental factors into financial regulations and their operations.

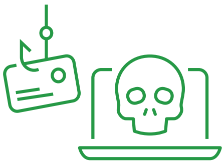
- Climate change and biodiversity loss create financial risks; the financial sector can exacerbate or help to mitigate climate and other environmental risks.
- Regulators are considering how to incorporate climate risk into regulations on banks' capital; there is no agreement on how to address the impact of all financial institutions' activities on the environment.
- Greening regulation, supervision and central bank operations requires robust, comparable data, which can be accomplished by mandatory reporting against an agreed international standard.

6. Member States should use the United Nations' inclusive forums to enhance the coherence of global economic governance.

- Enhancing policy coherence for sustainable development will require strengthened multilateralism and new forms of global cooperation.

Science, technology, innovation and capacity-building

1. New and emerging technologies can help accelerate SDG progress, but they have also given rise to new risks and policy challenges.



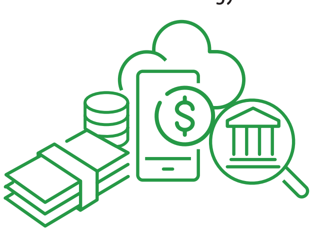
- Fintech is enabling deeper financial inclusion but is also creating new financial stability risks.
- Billions remain excluded from digital benefits and new digital gaps continue to emerge.
- Governments have stepped-up efforts to accelerate the low-carbon transition, but these efforts remain concentrated in a few countries.

2. Science, technology, and innovation offer pathways towards promoting sustainable industrial transformation.

- Technological change and innovation are major sources of growth and sustainable industrial transformation; digitalization is reshaping production processes.
- Sustainable industrial policies can help countries build technological capabilities.

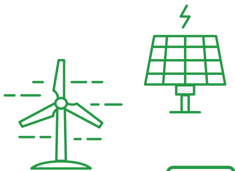
3. The energy crisis is an opportunity to accelerate the sustainable energy transition.

- Energy transition investments rose to $1.11 trillion in 2022, surpassing fossil fuel system investments for the first time.
- Developing countries, excluding China, should invest $1 trillion in the energy transition by 2030, but face large shortfalls in sustainable energy investments.
- Recent innovations in energy technologies and systems offer opportunities to accelerate the energy transition.



Science, technology, innovation and capacity-building

4. The United Nations system has multiple efforts to boost science and technology capacities.



- The Technology Facilitation Mechanism and the United Nations Technology Bank for Least Developed Countries are helping governments harness the potential of new technologies.

- International cooperation helps raise awareness in developing countries through sharing lessons learned and best practices.

Data, monitoring and follow-up

1. The need for data and statistics has intensified, with the rapid spread of digital technologies bringing great opportunities as well as challenges.

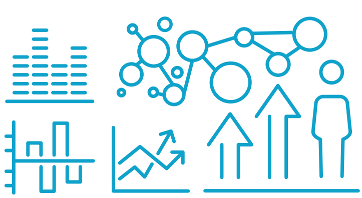
- The evolving data ecosystem around new technologies, data sources, and actors is challenging the traditional role of official statistical systems.
- Big data and other innovations can help strengthen official statistics for implementation and monitoring of the SDGs.
- The absence of internationally accepted standards for data use—such as for licensing, privacy, and security—is a key challenge for integration of new data.
- The extensive experience of national statistical offices in working with data should be leveraged.

2. Significant changes on the financing for development landscape has spurred demand for data and statistics beyond long-standing economic metrics, such as GDP.

- There are ongoing efforts to mainstream indicators on well-being, inequality, and multidimensional vulnerability.
- Stakeholders should work together to develop and agree on metrics beyond GDP.

3. With seven years to the deadline for the SDGs, significant SDGs data gaps persist.

- Countries should prioritize resources towards the development of national statistical and data systems, including establishing data stewards.



Data, monitoring and follow-up

4. The international community should scale up funding for data and statistics.

- Funding for statistical systems and data ecosystems have remained flat since 2015 and has fallen since the COVID-19 pandemic.
- Assistance for data and statistics was 0.3% of all ODA in 2020, meeting only a fraction of actual needs.

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