Financing SDGs 4, 8, 10, 13, and 16
Perspectives from the 2019 Financing for Sustainable Development Report
About

This booklet consolidates analysis on financing issues related to the SDGs under in-depth review at the 2019 High Level Political Forum. The booklet is based on the 2019 Financing for sustainable Development Report (FSDR) of the Inter-agency Task Force on Financing for Development (IATF).

The report finds that achievement of each of the highlighted SDGs depends on multiple policy responses from across the chapters of the Addis Ababa Action Agenda: Domestic Public Resources; Private Business and Finance; Development Cooperation; Trade; Debt; Systemic Issues; and Technology, Innovation and Capacity Building (color coded according to the Addis icons).

The Inter-agency Task Force on Financing for Development brings together combined expertise, analysis and data on financing issues from over 60 United Nations Agencies and international organizations. The Financing for Sustainable Development Office of the UN Department of Economic and Social Affairs (UN-DESA) serves as the substantive editor and coordinator of the Task Force, in close cooperation the World Bank Group, the IMF, WTO, UNCTAD, and UNDP. The Task Force was mandated by the Addis Ababa Action Agenda and is chaired by Mr. Zhenmin LIU, Under-Secretary General for Economic and Social Affairs.

A full report and in-depth analysis can be found at: http://developmentfinance.un.org/fsdr2019.
“Ensure inclusive and equitable education and promote lifelong learning opportunities for all”

Achieving SDG 4 on quality education for all requires significant additional financing. Annual total spending for SDG 4 on quality education would need to more than triple to achieve the first two—and costliest—education targets, namely universal pre-primary, primary and secondary education in low-income countries alone. There are three primary sources of funding to fill the gap: Governments, donors and households. Other private sector actors also play a role in the financing and delivery of education in many countries, often when there are quality concerns with the public option. But the cost of even non-profit private education can be prohibitive for many, raising concerns on equity and risking leaving many behind.

Domestic public finance is by far the most important source of education funding globally, accounting for 79 per cent of spending. Poorer countries tend to spend a higher percentage of their budgets on education, but this still translates into vastly smaller expenditure by student—less than $200 annually per primary school student in low-income countries, compared to around $8,000 in high-income countries. As a result, households contribute a much larger share of education financing directly in these countries. In some developing countries, households account for more than half of expenditure, compared to less than 15 per cent in most developed countries. Overreliance on households again raises equity concerns.

Some countries have been able to successfully raise financing for education through domestic public resources. Chile, which is gradually expanding free access to tertiary education, undertook a broad reform of its tax system in 2014, with the explicit objective of permanently increasing public spending for education and other social sectors.

In least developed and other low-income countries, fiscal and household spending is generally complemented by international aid, with donors accounting for 12 per cent of education spending in low-income countries. However, over the past decade, the share of education fell from 8.8 per cent of total Official Development Assistance (ODA) in 2010 to 7.1 per cent in 2017. More than $3 billion was disbursed as aid for either scholarships or as costs incurred by donor-country higher education institutions. In addition, the International Finance Facility for Education aims to raise financing for education and the provision of scholarships by
leveraging **Multilateral Development Banks** resources for lower-middle income countries. This can help address SDG means of implementation (MoI) target 4.b, which calls for a substantial expansion of scholarships available to developing countries.

Scholarships and migration for education purposes are also included in the **Global Compact for Migration**, which calls on member states to provide inclusive and equitable quality education to migrant children and youth, as well as facilitate access to lifelong learning opportunities.

**New and emerging technologies** are putting additional demands on education systems and implications of **artificial intelligence and related technologies** for education systems and practices are only just coming into focus. Due to the increasing automation of cognitive tasks, even advanced education is no longer a guarantee for employment. Continuous and rapid technological change will thus increasingly require the provision of opportunities for lifelong learning and warrant attention by policymakers.

Making progress on achieving quality education for all also depends on the availability of reliable and disaggregated data. **Capacity development** efforts help to make progress in strengthening data and statistical systems and improve the availability of national education data.

> “Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.”

SDG 8 on decent work and economic growth promotes higher levels of productivity and technological innovation, entrepreneurship and decent job creation, access to financial services and protection of labour rights.

**The global macroeconomic context** plays a key role in supporting SDG8. The 2019 FSDR found that global economic growth has likely peaked, with growth highly uneven across countries. In the majority of least developed countries (LDCs), per capita GDP growth is significantly below levels needed to generate sufficient employment and eradicate extreme poverty. Informality of businesses undermines the enforcement of labour rights and safe working conditions. Hundreds of millions of workers live in poverty despite being employed, with
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wage growth lagging labour productivity growth in most countries. Youth employment remains a challenge. And, gender disparities in workforce participation and pay remain stubbornly wide. Under and unemployment has a negative feedback effect, which further lowers demand and economic growth. **Domestic public policies**, including **monetary** and **fiscal policies**, can play a key role in addressing these challenges – although fiscal policy is constrained in countries with very high debt levels. Policymakers can use **fiscal systems to set incentives** for growth and decent employment. For example, fiscal systems can also be used to incentivize the formalization and growth of micro, small and medium-sized enterprises.

Policymakers can also create an **enabling business environment** that encourages **entrepreneurship and a vibrant business sector**. Access to financial services is a key component of this enabling environment. While **financial inclusion** has improved in recent years, significant gaps remain between developed and developing countries. **Financial technology** (fintech) has successfully fostered financial inclusion in a number of countries but has also led to new risks and challenges. The FSDR finds that the **regulatory framework** for financial institutions will need to shift from looking at the type of financial institution providing financial services to the underlying risks associated with the financial activity, with **international regulatory standards also needing to adapt to the new landscape**. Financial sector strategies should holistically address issues of financial inclusion, deepening and stability, along with consumer protection.

There is significant uncertainty about the long-term impact of **technology and innovation** on jobs and decent work, including fear that rapid advances in **artificial intelligence** could make the labour of millions of people redundant. **Automation** is also leading to a high concentration of profits among a few companies and locations, contributing to growing income inequality and job polarization. Policymakers can support innovation that creates new jobs. They can strengthen social protection systems and ensure they adapt, while investing in lifelong learning that enables upskilling and re-skilling.

Member States of the United Nations have prescribed **Aid for Trade** as a means of implementation for SDG 8 (target 8.a). Aid for Trade aims to help developing countries, in particular least developed countries, build the supply-side capacity and trade-related infrastructure needed to implement and benefit from **multilateral trade agreements**. Progress in this area has been steady since 2006, although the most recent year’s data showed a decline. Ensuring Aid for Trade is aligned with **country priorities** for infrastructure and industrialization, and is incorporated in **integrated national financing frameworks**, will contribute to implementation of the 2030 Agenda for Sustainable Development.
SDG 10 aims to reduce inequality within and among countries. Inequality can erode trust and leave the most marginalized behind. At the same time, reduced inequality is associated with stronger, more sustainable growth. Recent economic data finds that income inequality within countries has increased over the past three decades in about half the countries where estimates have been made. Indeed, most people live in countries with increasing income inequality. Individuals in the bottom 10 percent of income scales in many countries have seen little or no growth in disposable income over the last decade.

The 2019 FSDR finds that many factors have contributed to this trend. Advances in technology are displacing low- and medium-skilled workers while benefiting higher-skilled workers, thus exacerbating inequality. Market concentration and monopoly power has been rising across a range of industries in some countries, particularly in the digital economy, with a high concentration of profits among a few companies and locations. This has contributed to a decline in the share of wages in favour of profits, raising inequality.

Financial markets also impact inequality. On the one hand, financial development benefits the poor, with better access to financial services helping some people escape poverty. Promoting financial inclusion can thus have a positive impact on inequality when implemented with consumer protection policies. Financial inclusion can also reduce transaction costs for migrant remittances (SDG means of implementation target 10.c). On the other hand, excess financialization may contribute to greater income inequality, as the financial sector appropriates a disproportionate share of profits and may lead to some degree of regulatory capture. Excess financialization may also result in an unsustainable build-up of credit provision and debt, increasing the risk of a financial crisis, which may widen inequality.

The benefits from international trade have not been shared equitably and have required costly adjustments from some groups of workers, though recent research shows this effect might be smaller than believed. The 2019 FSDR underlines that expediting preferential market access for least developed countries (SDG means of implementation target 10.a) should contribute to making trade more inclusive.

Tackling inequality requires partnership – governments, the private sector, and civil society working together to eradicate discrimination against women, design the right labour market reforms, and strengthen education, training and social protection systems.
**Fiscal policy** can be effective at reducing inequalities. **Fiscal systems** can incorporate impact analysis on inequality on both taxation and expenditure. **Effective and progressive tax systems** can lower inequality, as can **public spending, including the provision of public services and social protection.**

**Labour policies**, such as minimum wages, and efforts at formalizing businesses, which allows better enforcement of labour rights, also lower inequality. Other policies include revisiting **competition policy**, and promoting regulatory and other policies aimed at reducing financial and capital market risks and ensuring that finance benefits the real economy. Investment in education and training can provide workers with skills in high demand and help to reduce inequality.

While certain policies can be implemented at the national level, others require international efforts, for example, **international tax cooperation**, global governance and the monitoring of global market concentration trends. Key international efforts to reduce inequality also include enhancing **official development assistance** flows (SDG means of implementation target 10.b).
“Take urgent action to combat climate change and its impacts.”

SDG 13 commits the international community to take urgent action on climate change mitigation and adaptation, noting the need for awareness-raising, capacity-building and financing. Climate change is proceeding faster than humanity is tackling the problem. There is no country that is not experiencing the drastic effects first-hand.

The 2015 agreements on climate, sustainable development and financing have not yet succeeded in slowing emission growth. Global CO2 emissions reached record levels in 2018 and are projected to keep growing in 2019, putting the world on track to an average temperature increase of 3°C by the end of the century if policies don’t change. Investment in sustainable and resilient infrastructure can combat climate change and strengthen resiliency while also having a positive impact on economic growth. Integrated national financing frameworks can help countries to lay out steps to develop institutional coordination mechanisms for more effective planning (SDG means of implementation target 13.b)

National fiscal systems can be used to help transition the world to a sustainable, low carbon economy. Carbon pricing and other environmental taxation can help steer economic activities away from high emissions, while at the same time generating fiscal revenues. Climate change adaptation can be bolstered by expenditure on disaster resilience and setting incentives for disaster risk reduction.

Private investors are gradually recognizing that the performance of companies on environmental issues affects financial performance. They are increasingly incorporating environmental risks into investment decisions. Policy measures should complement private initiatives and help build a policy environment that aligns private sector incentives with public goals (for example, through carbon pricing) and strengthens accountability. These measures include promoting more meaningful and harmonized sustainability reporting by corporations and clarifying the fiduciary duties of institutional investors. They also include promoting long-term investing by supporting efforts to build longer-term indices or encouraging longer-term investment horizons. Without a long-term investment horizon, certain risks, such as those from climate change, will not be incorporated into decision-making.

Since climate risks impact financial sector returns and financial market stability, they are relevant for financial regulation. This highlights the need for regulators to encourage publishing these risks and create incentive in the financial system for investment in
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sustainability, and for credit rating agencies to assess them and potentially produce long-term ratings alongside traditional ratings.

**Strengthening development cooperation** efforts is essential to climate finance. According to the latest estimates from the Standing Committee on Finance of the UNFCCC, total climate financial flows from developed to developing countries—including public flows and mobilized private flows—reached $71 billion in 2016, representing an increase of almost 20 per cent over 2015, though still below the $100 billion commitment made by developed-country parties to the United Nations Framework Convention on Climate Change (UNFCCC) to support the climate financing needs of developing countries. **Access to climate finance** remains a challenge for some of the poorest and most vulnerable countries. The Green Climate Fund is working to address access challenges.

**Green technology transfer** was also meant to be a key element of the UNFCCC Clean Development Mechanism that provides Certified Emission Reduction units (CERs) for emissions reduction projects, which may be traded in **emissions trading schemes**. The bulk of environmentally sound technologies have been developed in response to explicit and strong government support, providing Governments with leverage to disseminate them more broadly in the larger public interest and reap economic benefits.
“Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.”

In the Addis Ababa Action Agenda, Member States of the United Nations agree to “promote peaceful and inclusive societies,” emphasising the role of institutions as important instruments of implementation. This includes both efforts at national level institution-building as well as efforts at the international level.

The Financing for Sustainable Development Report lays out steps for countries to develop and implement integrated national financing frameworks. Effective, accountable and transparent institutions are a key element of these frameworks. This includes institutional coordination mechanisms, such as national steering committees, which can provide leadership, facilitate a whole-of-government approach and policy coherence, and lead a consultative process that engages all relevant stakeholders, including parliament, civil society, the private sector and other non-state actors.

At the international level, the role of global institutions is discussed throughout the report. To achieve the SDGs, international norms and institutions need to be fit for purpose. Rising global economic risks, the rapidly changing international landscape, and insufficient progress on some SDGs (such as combatting climate change) have sensitized more stakeholders to the need for reforms to the current multilateral system. This creates a window of opportunity for reform, which is discussed in relation to the multilateral trading system, tax, debt and the international financial architecture.

The report further notes that the 2030 Agenda makes high demands to maximize synergies and break down silos. Coherence of financial and economic systems with sustainable development is critical to achieve the SDGs. The deeper coordination that is now needed extends across policy areas and institutions including tax, investment, competition and non-economic issues—which have previously been excluded from the development discourse—such as climate change, disaster risk, human rights, gender and migration.

SDG 16 also makes specific reference to reducing illicit financial flows (IFFs). While such flows are difficult to quantify, the IATF mapped out their three main components (corruption, crime and tax-related IFFs) and recommended component-by-component and channel-by-channel estimation, analysis, and policy recommendations. Tackling IFFs will require strengthening
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institutions and enforcement of existing laws, as well as the development of new policies and practices for each channel. For instance, tax transparency reforms are relevant for tracking and stopping tax-related IFFs. Technology can play an important role, such as through strengthened customs enforcement, but policies also need to address the use of technology for tax evasion, money laundering and crime. Technology can also make know-thy-customer and other anti-money laundering rules, which have unintended consequences on correspondent banking, more efficient. For example, more widespread adoption of Legal Entity Identifiers (LEIs) can reduce the cost of their issuance and help combat illicit flows. In addition, Member States are developing good practices on the return of stolen assets.
Download the full report: https://developmentfinance.un.org/fsdr2019

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