Statement

Financing for Sustainable Development Framework

INTRODUCTION

Since the adoption of the G20 Action Plan on the 2030 Agenda for Sustainable Development (the Action Plan) **in 2016**, G20 Leaders have consistently recognized the key role of the G20 in contributing to the implementation of the 2030 Agenda for Sustainable Development, including its Sustainable Development Goals (SDG) and the Addis Ababa Action Agenda on Financing for Development (AAAA).

Several principles guide the Action Plan. It provides for the G20 to implement the 2030 Agenda domestically according to "national priorities, needs and capacities", and support internationally low income and developing countries in their efforts to progress towards achieving the SDGs.[1] Through this framework, G20 members can move forward on the Action Plan to accelerate international action on financing for sustainable development (FSD).[2]

At the Osaka Summit in 2019, G20 Leaders recognized "*that international public and private finance for development as well as other innovative financing mechanisms, including blended finance, can play an important role in upscaling collective efforts.*"

The 2030 Agenda highlights that sustainable and inclusive economic growth is essential for shared prosperity. Since its launch in 2015, significant work on the implementation of the Agenda focused on estimating its cost and identifying financing gaps, developing instruments to mobilize financing to fill the gaps and administrative tools and measures financing flows in their support of sustainable development and their impact.

In late 2019, the UN Secretary General highlighted, "We are seriously off-track" to achieve the SDGs by 2030 with lack of financing as a contributing factor.[3] With ten years left, world leaders called at the 2019 SDGs Summit for a "decade of action" for sustainable development, and pledged to mobilize finance, enhance national implementation, and strengthen institutions to achieve the SDGs by 2030, leaving no one behind. Furthermore, the COVID-19 pandemic has resulted in global economic contraction, potentially reversing years of progress in human development and reducing per capita income in many countries. Moreover, debt vulnerability has increased and addressing the impact of the pandemic has pressured public and private resources in all countries, especially in low-income countries. **In response to the COVID-19 Crisis, the G20 Leaders held an extraordinary summit on 26 March 2020 and committed to** "take all necessary health measures and seek to ensure adequate financing to contain the pandemic and protect people especially the most vulnerable." Some of the most at risk and vulnerable may include the poor, refugees, women and girls, people with disabilities, migrant workers, immigrants, and those in low-paid jobs in the informal economy or with poor access to social protection. The Leaders highlighted that "Tackling the pandemic and its intertwined health, social and economic impacts is our absolute priority." Furthermore, the G20 Finance Ministers and Central Bank Governors endorsed the G20 Action Plan on Supporting the Global Economy Through the COVID-19 Pandemic, including the Debt Service Suspension Initiative (DSSI) supporting the poorest countries.

In May 2020, Canada, Jamaica and the UN Secretary-General co-convened the high-level process on "Financing for Development in the Era of COVID-19 and Beyond" to support the needs of developing countries and help them recover stronger.

THE FINANCING FOR SUSTAINABLE DEVELOPMENT FRAMEWORK

In the 2030 Agenda, UN members pledged to "build strong economic foundations for all our countries." The Agenda noted that "Sustained, inclusive and sustainable economic growth is essential for shared prosperity."[4] The Agenda highlights that public finance, both domestic and international, play a vital role in providing essential services and public goods and in catalyzing other sources of finance. It also, acknowledges the role of the diverse private sector and that of civil society and philanthropic organizations in the implementation of the new Agenda.

The Agenda highlights the need to respect all human rights. It also calls for peaceful and inclusive societies and advance fully towards a global economic system in which "no one is left behind." It calls for "adopting policies which increase productive capacities, productivity and productive employment; financial Inclusion" to create "dynamic, sustainable, innovative and people-centered economies, promoting youth employment and women's economic empowerment, in particular, and decent work for all."[5]

An integrated financing framework on mobilizing finance from all viable resources (public, private, domestic, and international) could help facilitate robust sustainable recovery from the COVID-19 crisis and address challenges faced by many countries such as their level of indebtedness. Therefore, the G20 Development Working Group proposes for Leaders' consideration a voluntary integrated framework to mobilize

FSD and improve the efficiency and impact of expenditure. The framework could serve as a guideline to design, implement and review policies and support activities in accordance with national circumstances. It could catalyze effective G20 efforts to help the international and national communities to achieve their national development strategies, including related to climate, taking into account each country's policy space, and absorption capacity. The framework comprises three pillars:

1. Mobilization of finances and their alignment for sustainable development.

Large share of FSD has to come from domestic, sustainable and inclusive growth. Resources mobilization and alignment should be in line with the country's development agenda towards achieving sustainable development and on sectors with the highest impact and spillover effects to maximize their impact on economic, environmental and social progress for sustainable recovery. Domestic resources supplemented by international finance, including through official support such as ODA, play an important role and can help to catalyze private finance for sustainable development. In addition, remittances flows, which is key for household sustenance, can be a private financing source that can also help increase growth and human development.

In many countries, accelerating sustainable growth could require efforts to diversify economic activity. Economic diversification can help foster reductions in the intensity of use of natural resources, too. Furthermore, the mobilization and usage of resources should minimize distortions to bring economic activity in developing countries towards their potential productivity and then expand it. Furthermore, diversification, mobilization, and uses of resources should improve fiscal and external sustainability take into account macro-level debt sustainability, reduce countries' vulnerabilities to domestic and external shocks, crises, and natural disasters.

A successful approach to mobilization and use should also focus to the key ingredients of sustainable development: continuous improvements in productivity, efficiency, steady increase in per capita income, and savings and investment. The framework should be inclusive, empower women and girls, preserve the environment, restore competition and stimulate innovation, among other considerations. It should also foster an enabling business environment, address governance, promote transparency, accountability and credibility of public policies and institutions.[6]

Developing technology and digitalization and facilitating the availability of technology globally can support mobilization and efficient management of both public and private resources for sustainable development, including by facilitating access to timely and precise information on the state of the economy.

Work on improving and rationalizing financing instruments can help target areas with high impact on sustainable development. Enhancing innovative financing mechanism, such as blended[7] and impact finance can help private resources, like intermediate savings into investments and projects that contributes to sustainable development. At the same time, it is important to continuously evaluate the usefulness of financing instruments for their impact not only on specific projects but also on overall social, economic, and environmental performance in accordance with their national priorities.

2. Improving the efficiency and effectiveness of the delivery

An effective international and national financing framework must help increase the efficiency of the delivery of actions toward sustainable development. Prospects for increased efficiency and effectiveness could attract both local and additional international resources. The proposed framework aims to help developing countries: (a) increase the efficiency and the effectiveness of private and public sectors, including but not limited to spending; (b) create a national, regional and international enabling environment for sustainable development; (c) improve the likelihood of success of the efforts to reach sustainable development by prioritizing and sequencing such efforts; and (d) help develop standards of measuring impact and transparency of investments.

Developing countries, especially low and lower middle income should take steps to strengthen their domestic enabling environment for business to unlock domestic and attract foreign investment. Developing local capacity and managerial capital to improve the management of private and public capital are important components for these efforts. International support can help attract international 'managerial capital'[8] and the related capacity building.[9] Furthermore, the rule of law, transparency, efficiency and effectiveness of tax systems help strengthen the enabling environment for business.

Integrated National Financing Frameworks (INFFs) are a tool for managing development finance from all sources and directing these flows to support national development strategies as called for in the AAAA. The tool can help increase the transparency of FSD; encourage improving quality in executing and tracking progress of nationally owned sustainable development strategies.

3. Strengthening G20 cooperation

The framework offers numerous opportunities for the G20 to demonstrate leadership in promoting FSD. In line with the G20 development principles that LICs "*should be treated as equal partners, with national ownership for their own development*" (Seoul, 2010), the G20 can further support the international community, including developing countries, in their efforts to implement voluntary country-level approaches. The G20 can assist in capacity building, share experiences and knowledge, promote on mutually agreed terms both the voluntary transfer of technology and digitalization and strengthen support to existing related initiatives in line with their national development strategies. While recognizing the importance of domestic resources, full implementation of ODA commitments, where and when possible, in a timely and adequate manner, and maximization of its impact are important factors. Scaling up all providers' support in terms of capital technology and capacity building for developing countries is essential for supporting development.

Consistent with the commitment to align the G20 work with the 2030 Agenda, the G20 can improve policy coherence towards sustainable development across its working groups and streams. Also, cooperation with non-G20 countries in relevant initiatives such as North-South, South-South, and Triangular cooperation can help address common challenges, such as illicit financial flows, base erosion and profit shifting, and tax evasion. G20 members can support capacity building in low-income countries in areas where they face common challenges. Furthermore, the G20 members will further strengthen collaboration within the G20 Sherpa and Finance tracks to harness synergies and avoid duplication of efforts.

Individual G20 members could invite volunteering developing countries to participate in pilot studies to help them design or improve and implement transparently managed private savings schemes, support them in their efforts to develop domestic 'managerial capital' and improve ownership and prioritization and implementation of their nationally owned sustainable development strategies.

G20 members could engage with relevant regional and international organizations, including regional and multilateral development banks, as well as think tanks and academia, to share best practices in FSD, including innovative finance for sustainable development, for example blended finance. Furthermore, G20 members could work with partners to provide inclusion analysis within financing decision-making to support access to finance at a local level, including by civil society.

G20 members are encouraged to support governments in their efforts to use INFFs and other tools and direct finance in a way that supports their national development strategy in transparent and accountable manners as called for in the AAAA. Other tools such as Country Platforms and Total Official Support for Sustainable Development can help increase the efficiency and effectiveness of delivery of financing and encourage improvements in quality, execution, and tracking of progress.

[1] The G20 Action Plan reflects the 2030 Agenda's acceptance that all actions on the Agenda will take into account different national realities, capacities and levels of development and respect national policies and priorities. (UN 2030 Agenda).
[2] UN Secretary-General, SDGs Summit, 24 - 25 September 2019, New York; United Nations, Inter-agency Task Force on Financing for Development, Financing for Sustainable Development Report 2020. (New York: United Nations, 2020)
[3] https://news.un.org/en/story/2019/11/1050831
[4] Resolution adopted by the General Assembly on 25 September 2015: Transforming our World: the 2030 Agenda for Sustainable Development." Paragraph 27.
[5] Resolution adopted by the General Assembly on 25 September 2015: Transforming our World: the 2030 Agenda for Sustainable Development. Paragraph 67, page 29). Also, Addis Ababa Action Agenda." Paragraph 35, page 7.
[6] IMF/Group of Twenty, 2018 and 2019, "G20 Report on Strong, Sustainable, Balanced, and Inclusive Growth."
Duval, Romain, and Furceri, Davide, 2019, "How to Reignite Growth in Emerging Market and Developing Economies," IMF Blog, October 9, 2019, https://blogs.imf.org/2019/10/09/how-to-reignite-growth-in-emerging-market-and-developing-economies/.
[7] For example the Tri Hita Karana Roadmap.
8 See, for example, Bruhn, Miriam, Dean Karlan, and Antoinette, Schoar, 2010, "What Capital Is Missing in Developing Countries?" American Economic Review 100 (2): 629–33.
9 "The potential of new investment vehicles, such as development-oriented venture capital funds, potentially with public partners, blended finance, risk mitigation instruments, and innovative debt funding structures with appropriate risk management and regulatory frameworks." AAAA (Paragraph 43 page 21-22) - properly structured Venture Capital can help deliver managerial capital, including for development.