Chapter 6. Implementation: Co-ordinating actors, tailoring solutions

The 2030 Agenda requires a significant change in how development actors operate so that they deliver on the promise of a holistic approach. Indeed, the impact of the Addis Ababa Action Agenda should be most visible at the level of implementation and operations.

This chapter outlines challenges encountered at the country level in integrating diverse sources of financing. It surveys some of the tools being tested to overcome these challenges and recommends ways forward. In short, existing tools must be strengthened, new tools developed and a significant implementation gap filled in order to realise the promise of the Addis Ababa Action Agenda.

While recognising that country-led development remains the central pillar of financing for sustainable development, the chapter also encourages the integration of sustainable development at local, regional and global levels. Financing solutions must also be tailored across sectors, including for cross-cutting policy goals such as gender equality and the climate transition.

In brief

To ensure that financing will support the Sustainable Development Goals (SDGs), it is not enough simply to enhance measurement of efforts and impact (Chapter 4) or improve policies, partnerships and capacity building (Chapter 5). Full implementation of the Addis Ababa Action Agenda (AAAA) requires collective action at the final mile – that is, at the level of operations.

But a collective approach to financing is a challenge to current operational practice, whereby financing actors tend to act independently, driven by their own assessment of priorities. While partnerships between public and private actors are increasing, true integration of financing behind the SDGs remains elusive.

This chapter surveys tools that are emerging to support financing actors, and particularly bilateral and multilateral providers, as they seek to overcome this challenge of fragmentation. It looks at the benefits of integrated financing approaches to sustainable development challenges through the examples of gender equality and the climate transition.

At country level, tools are emerging to support the alignment of national development strategies to the SDGs and development of the integrated national financing frameworks called for by the AAAA (paragraph 9). Such frameworks are still at an early stage. Actors are also using new tools to better identify their comparative advantages, co-operate with other actors and prioritise transformative investments.

Despite these positive steps, however, implementation is lagging behind ambition. A three-pronged approach is needed to turn opportunities for financing for sustainable development (FSD) into realities:

- **Co-ordination at the diagnostic phase can help align country and financing strategies.** A more coherent FSD toolkit is needed and gaps in implementing the tools need to be addressed. Even where diagnostic tools exist, they are fragmented. Actors need to expand country coverage, collectively implement findings, and support countries' capacity to manage diverse sources of financing. Mechanisms such as inclusive dialogue should be expanded to bring actors together and enhance country ownership. Actors at the subnational, regional or global level need to be more actively integrated, since many development challenges are best handled outside of the national level.
- **New tools are needed to tailor financing solutions to sectoral and country contexts and integrate multi-layered governance**. Opportunities also exist for integrated financing across levels of governance, sectors and specific country challenges. Such financing opportunities, such as the contribution of global replenishments to global public goods, must also be better mapped and once they are found, FSD opportunities need to be better implemented – for example, by ensuring compatibility of financing for sustainable development with the Paris Agreement.
- **Much remains to be learned about FSD needs and their complexity**. The AAAA addresses a wide range of action areas, investments and tools, but operational links remain relatively unexplored. Further work is needed on how to articulate roles. Some examples include how to leverage private and blended finance in country strategies, how to integrate remittances into financing strategies, and how to improve diagnostics to fill financing gaps. Particular financing contexts need to be further explored, for example the sectoral dynamics as countries transition.

Integrated national financing frameworks are key to achieving the Sustainable Development Goals

The Addis Ababa Action Agenda promotes "cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks" (paragraph 9). Yet three years after the AAAA, there is no agreed definition of these frameworks or what steps need to be taken to implement them.

Actors must identify their comparative advantages, co-operate with other actors and prioritise transformation investments within a coherent overarching framework. Tools have been developed to support this, among them the UNDP development finance assessments, the World Bank's Country Private Sector Diagnostics (CPSD) and the OECD's multi-dimensional country reviews. Nevertheless gaps in coverage, implementation and substance remain.

Actors, including donors, need to do more to support integrated national financing frameworks (INFFs). Greater knowledge must be amassed about how best to leverage diverse financing sources and improve data and diagnostics to find and fill financing gaps.

A coherent and co-ordinated financing sustainable development toolkit is needed

As explored in Chapters 2 and 3, the complexity of the financing for sustainable development system presents a triple operational challenge. Actors need to:

- *co-ordinate* based on each actor's comparative advantages
- *prioritise* among enablers to increase development footprint (see Chapter 5)
- *navigate and manage this complexity* while also assessing financing gaps and supporting partner countries.

The tools to meet these needs remain fragmented: making them part of a coherent toolkit to support INFFs will help all actors achieve the ambitions of the AAAA.

Financing actors need to co-ordinate comparative advantages

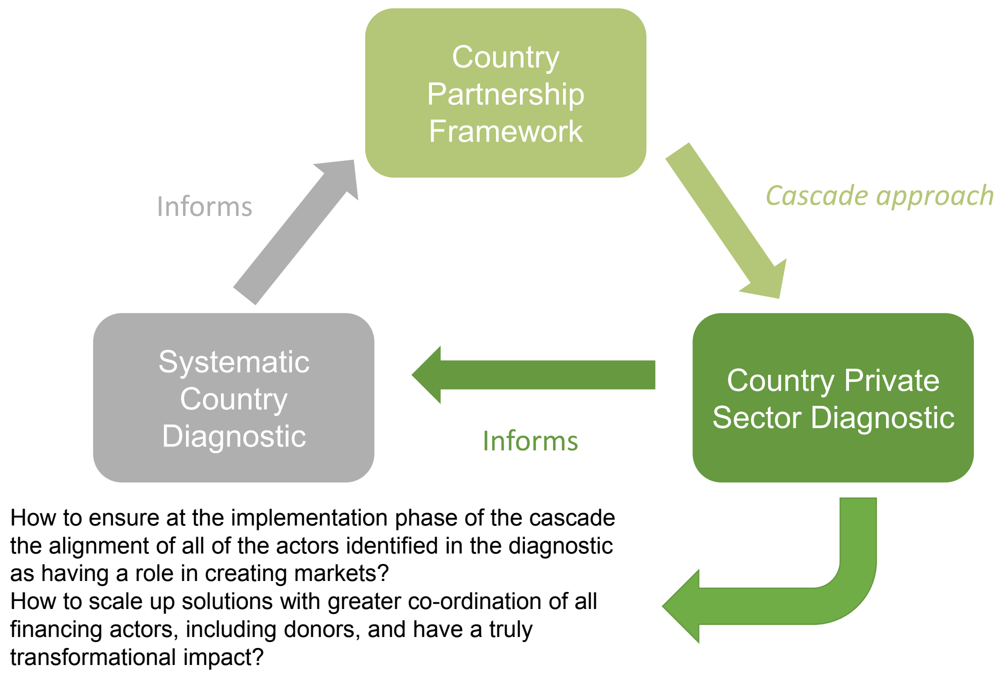
Different actors have expertise in specific countries, sectors and instruments, and can contribute this expertise to integrated financing approaches. Most bilateral providers, UN agencies and vertical funds focus on social sectors through concessional finance. Multilateral development banks and some large bilateral donors focus on private sector development and infrastructure (OECD, forthcoming[1]), while philanthropic finance invests heavily in the health sector (OECD, 2018[2]).

Further work is needed to ensure complementarity and to minimise financing gaps. For example, there is not yet agreement on which development challenges the private sector is best placed to solve and at what price. Nor is it clear whether the tendency of private sector engagement to focus on economic sectors (OECD, forthcoming[3]); (OECD, 2018[4]) represents a division of labour or a missed opportunity.

The World Bank Group aims to address these co-ordination issues using the Country Private Sector Diagnostic (CPSD) tool. The CPSD operationalises the cascade approach to first use private finance and reserve scarce concessional finance for situations where no market-based solution is possible (Chapter 5). The CPSD identifies the most feasible short- to medium-term opportunities for market creation and development impact.

Over time, the World Bank Group will need to integrate the CPSD into its planning process with systematic country diagnostic (SCD) reports and country partnership frameworks (CPFs) so that the cascade approach is embedded throughout operations.

Figure 6.1. World Bank Group diagnostic and strategy process



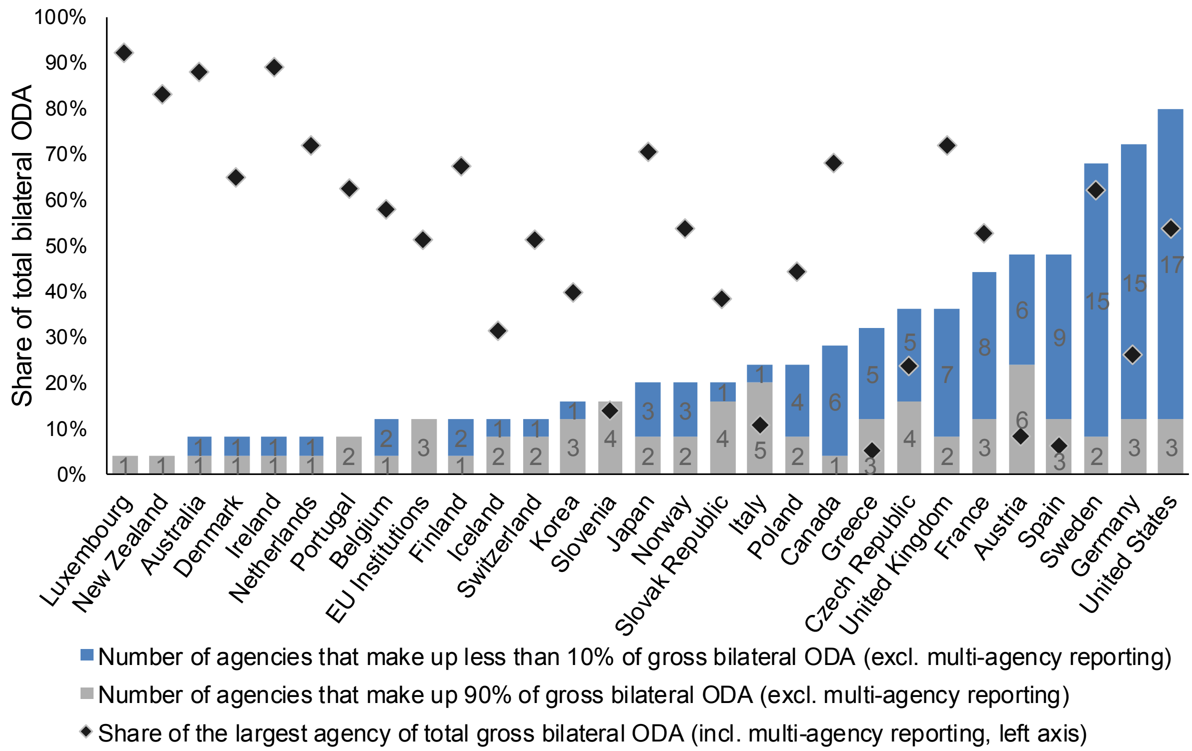
Source: Author based on World Bank Group (2018[5]) *World Bank Group Directive: Country Engagement,* https://policies.worldbank.org/sites/ppf3/PPFDocuments/1cb5ccd7e58e479096378f9d5f23b57d.pdf; World Bank-IMF (2018[6]), *Forward Look - A Vision for the World Bank Group in 2030: Implementation Update,* http://siteresources.worldbank.org/DEVCOMMINT/Documentation/23775499/DC2018_0005ForwardLookupdate_329.pdf.

The intent of the cascade approach is to identify comparative advantages, find shared value and work in partnership rather than having the WBG try to do everything itself (World Bank Group, 2014[7]). But this is challenging. Early evaluations of SCDs and CPFs find that they have struggled to achieve selectivity, are spread thinly across multiple fronts and need to better articulate not just what the WBG does but what it does not do (IEG/World Bank Group, 2017[8]).

As actors establish their comparative advantages and as the number of actors increases, co-ordination will become even more critical. This is true for OECD member states as well. As Figure 6.2 shows, at least 15 OECD Development Assistance Committee (DAC) members have more than 5 agencies active in development, with the United States alone having has 20 government agencies delivering official development assistance (ODA).

Figure 6.2. Number of government agencies delivering DAC members' official development assistance

Aid distribution across DAC members' aid extending agencies



Source: Author's calculations based on OECD (2018[9]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1.

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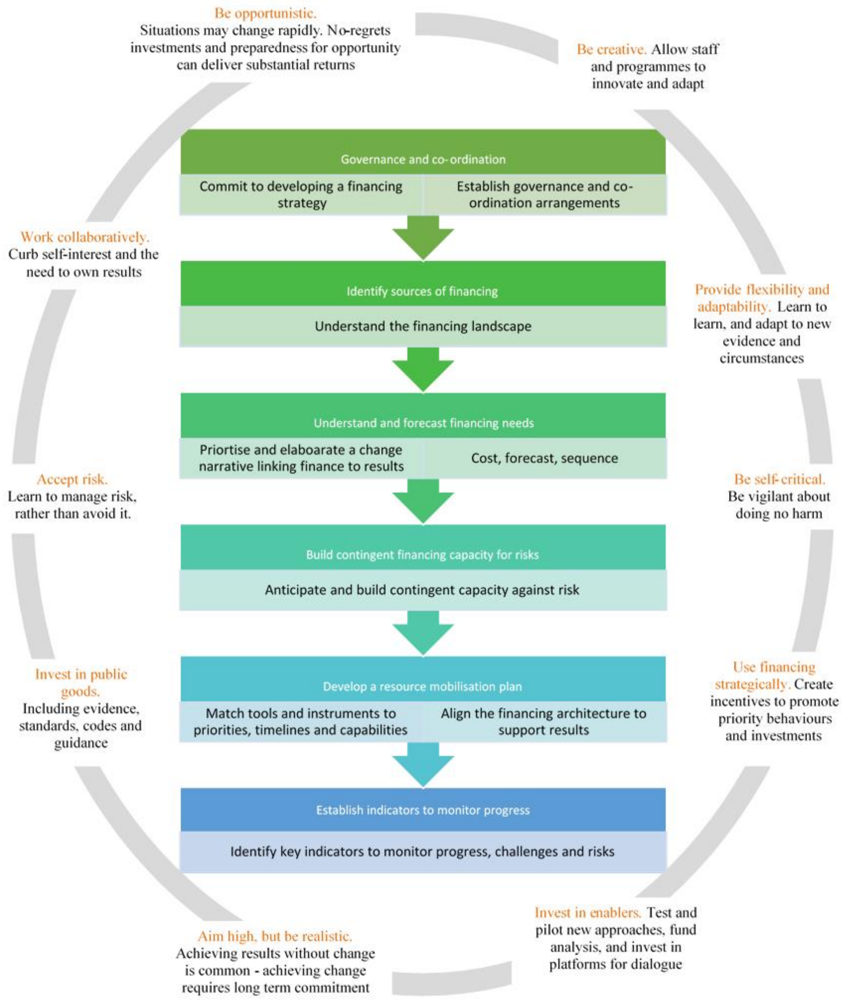
The roles and comparative advantages of actors, be they public or private, will vary according to context. For instance, contexts as different as small island developing states, least developed countries and landlocked developing countries each have their individual challenges. As Stiglitz (1998[10]) noted in a lecture 20 years ago, "[t]he issue is one of balance, and where that balance is may depend on the country, the capacity of its [g]overnment, and the institutional development of its markets."

For example, integrated approaches to financing can play a constructive role in fragile contexts (see Box 6.3). The OECD's Financing for Stability framework illustrates the diversity of possibilities that need to be taken into account. The framework is designed to integrate financing across a range of actors in a way that is tailored to fragile contexts, an approach that particularly emphasises risk management and flexibility (Figure 6.3).

Figure 6.3. The Financing for Stability framework emphasises risk management



Source: Poole (2018[11]), *Financing for stability in the post-2015 era,* https://www.oecd-ilibrary.org/development/financing-for-stability-in-the-post-2015-era_c4193fef-en.

Box 6.1. In My View: How can private sector operations help in fragile contexts?
By Ben Miller, Associate Director, CDA Collaborative Learning

What are the opportunities?

Partners CDA, the Peace Research Institute Oslo and the University of Stellenbosch's Africa Centre for Dispute Settlement recently concluded a case study-based inquiry to identify constructive approaches by private sector actors in fragile contexts.

We found that private sector actors are most effective when they act purposefully as:

- a catalyst for positive change in the relationships between other actors
- a facilitator of constructive activities by other actors that have an interest in peace
- an influencer of actors who, by virtue of their official position or informal authority and legitimacy, have the power to say "yes" or "no" to peace and conflict.

Where companies' efforts are focused on conflicts and tensions as they exist in the immediate vicinity of their operations, their relationships with local stakeholders and communities are therefore critical to success. Effective companies pay particular attention to their "social license to operate", for example by slowing the pace of operations to build trust.

Actors outside of the private sector (nongovernmental organisations and bilateral and multilateral actors) played critical roles in all of our case studies. The best outcomes were achieved when actors from a range of sectors identify a set of common interests and work towards those goals, which can require a significant investment on the part of all actors in analysis, dialogue and relationship-building.

What are the risks?

Fragility – the inability of formal institutions to fulfil adequately their mandates, contain or resolve conflicts, and meet the needs of citizens – shapes the impacts of investments and business activities. Unless well managed, new investments may intensify conflict and fragility rather than diminish them. In a fragile context, we should consider ways to improve the quality of investment and not just the quantity – encouraging and supporting companies to enhance social performance and stakeholder engagement and to develop capacities for conflict and risk analysis and improving the accountability and performance of governance institutions.

Non-business risk is an important driver of corporate social performance and influences decisions about where to invest and how to operate. The reputational risks of being inappropriately entangled with a government that is perceived to be corrupt or indifferent to citizens' human rights, for instance can drive good practice in this area. This means that eliminating companies' losses that are incurred through the realisation of non-business risks removes an important incentive for companies to get it right with their stakeholders. A better way to "de-risk" private investment is to mitigate conditions of fragility and conflict. There also needs to be greater consideration of the absorptive capacity of fragile environments to manage contested inflows of new resources.

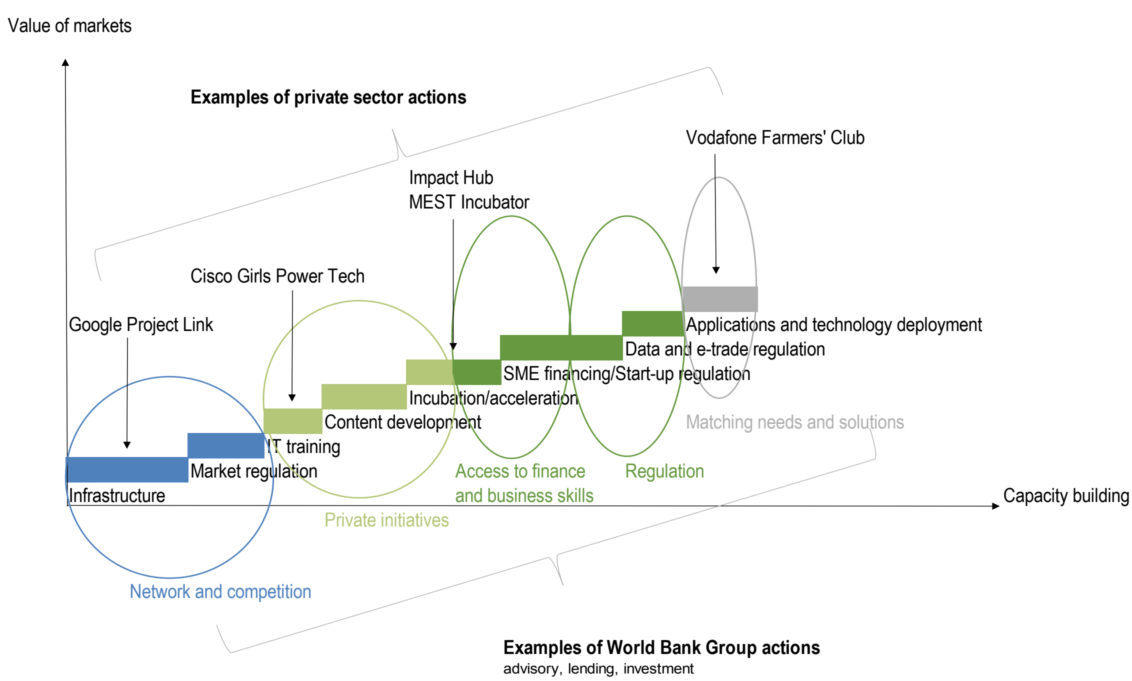
Further information can be found at: https://www.cdacollaborative.org/cdaproject/business-and-peace/.

Financing actors need to prioritise investments

The co-ordination and repartition of roles among actors according to their comparative advantage can also help prioritise the use of finite resources and sequence investment. Prioritising could increase social returns. For example, in a report for the Copenhagen Consensus Center,[1] Kydland et al. (2015[12]) argue that some development targets present the best "value-for-money", and that globally, every dollar spent on just 19 targets by 2030 would generate more than USD 15 of social good (Kydland, Stokey and Schelling, 2015[12]).

Country context will determine prioritisation of investments. Figure 6.4 shows, for the information and communication technology (ICT) sector in Ghana, the respective contributions to the creation of markets and capacity building of public and private actors, identifying bottlenecks and priorities for future actions and partnerships to have a transformational impact.

Figure 6.4. Investing in the building blocks of ICT markets



Source: Based on World Bank Group (2017[13]), *Creating Markets in Ghana: Country Private Sector Diagnostic*, https://www.ifc.org/wps/wcm/connect/ac42c20a-c82c-48b7-8432-221c0e066e2a/CPSD-Creating-Markets-in-Ghana-Nov-2017_v1.pdf?MOD=AJPERES.

Prioritisation tools such as growth diagnostics are well established to identify constraints to growth as well as actions that overcome constraints (Rodrik, Hausmann and Velasco, 2005[14]). Financing actors including the Bill & Melinda Gates Foundation use economic valuation to prioritise across health investments (NICE International, 2014[15]). In the SDG era, prioritisation also must factor in the multi-dimensionality of development goals, linkages among SDGs, and the urgency of individual SDGs (Chapter 5) (Le Blanc, 2015[16]).

The OECD Development Centre's multi-dimensional country review (MDCR) is one tool used to prioritise financing in the context of multi-dimensional development and with strong links to the SDGs. An MDCR assesses a country's economic growth, social inclusion and environmental outcomes against benchmark OECD and regional economies.[2] Panama is one of the assessed countries that have chosen to include a focus on the financing and policies needed to achieve multi-dimensional development outcomes (OECD, 2017[17]). These include, for example:

- tax mobilisation;
- fostering private investment, domestically and internationally;
- the role of remittance flows in consumption.

Integrated national financing frameworks offer much-needed potential to map financing to development strategy

To effectively finance the SDGs, financing actors need to co-ordinate their comparative advantages and prioritise their diverse investments. They also need to co-ordinate and prioritise in a way that reinforces country ownership, links to policy and supports the country's development strategy. INFFs, although at an early stage, are a promising mechanism in this regard.

National development strategies are an important building block. They must be inclusive and tailored; no single approach will work for all contexts. The report, *Perspectives on Global Development 2019* (OECD Development Centre, forthcoming[18]), underscores that strategies must be multi-sectoral, place-based, participatory and implemented within the context of multilateralism.

National development strategies are already widely used.[3] But on their own, such strategies may not be sufficiently integrated into financing and policy choices or linked to SDGs. A number of new tools aim to address these gaps. Among them is the UNDP Rapid Integrated Assessment (RIA) tool (UNDP, 2017[19]). Another is the United Nations' Mainstreaming, Accelerating and Policy Support (MAPS) approach, which aims to embed the SDGs in domestic planning and budgets (UN Development Group, 2015[20]).

The AAAA offers an opportunity – in the form of INFFs – to link national development strategies with financing and partnerships from a broad range of actors, domestically and internationally. While there is no agreed design for an INFF, to fulfil this role, INFFs could provide prioritised and integrated investment plans, mapping across needs and sources of financing, a resource mobilisation plan, and governance arrangements to monitor implementation.

Such frameworks for SDG financing would help to equip countries to better negotiate and make the most of diverse financing sources in the complex FSD market, or what Prizzon, Greenhill and Mustapha (2016[21]) called "the age of choice". These frameworks also could build on existing mechanisms such as aid management platforms[4] that governments use to better understand which partner is doing what and where (Weaver et al., 2014[22]).

The UNDP's Development Finance Assessment (DFA) is the most prominent example of the tools being used to link financing to policy and to implement INFFs. A DFA provides planning and finance ministries with data, analysis and recommendations on trends in development finance and the alignment of these with national priorities, synthesising analysis across resource flows and institutions (UNDP, 2016[23]). An important feature of a DFA is an inclusive and consultative process to engage with the country's government, media, parliamentarians, civil society organisations (CSOs) and other stakeholders. The "In My View" piece below describes lessons learned from the DFA process.

Box 6.2. In My View: Lessons learned from UNDP Development Finance Assessments, by Margaret Thomas, Chief, Development Impact Group, UNDP

Countries face a number of challenges in mobilising and strengthening the effective use of a diverse range of public and private resources for the Sustainable Development Goals (SDGs). These challenges are rooted in, or made more difficult by, misalignment between planning and finance systems and by the participation of only a narrow group of stakeholders in dialogue and decisions on financing.

In response to these challenges, UNDP has developed the Development Finance Assessment (DFA). The DFA makes financing issues accessible to policy and decision makers and follows a process of multi-stakeholder consultation. It builds an agreed roadmap that can support progress, including:

- strengthening the link between planning and financing
- strengthening multi-stakeholder participation in financing dialogue
- mobilising financing
- managing finance to maximise sustainable development impact

The DFA aims to both build a broader base of support for reform agendas and identify innovative solutions to the challenges of integrated financing of the SDGs. The DFA looks at opportunities for deeper collaboration with the private sector beyond growth in private investment. It considers how monitoring frameworks, transparency and collective accountability can strengthen the role of private finance in realising sustainable development objectives.

To date, 25 countries have undertaken or are undertaking a DFA. Lessons learned from countries' experiences continue to strengthen the DFA methodology.

- Given that the scale and diversity of finance available vary widely across countries, the tailored, context-driven nature of the methodology and government-led approach of the DFA is unique in its aims and process.
- The specific value added of the DFA lies in broad-based engagement. The government-led oversight committee brings together ministries and private sector and other partners, and it plays a crucial role in the DFA roadmap.
- Evidence-based dialogue is strengthened by a solid analytical basis that aggregates data from a range of sources and takes stock of the policy and institutional landscape across financing flows. This analysis benefits from collaboration with key partners such as international finance institutions, development partners, academia and think-tanks, among others.
- The DFA Roadmap as the outcome of the process needs to be concrete, focused and actionable and built on consensus by actors across financing partners committed to a set of prioritised and agreed actions.

The methodology has been revised to better respond to challenges such as the availability of data across ministries, effective engagement with the private sector and garnering buy-in across partners for long-term implementation of the DFA Roadmap.

DFAs undertaken have led to countries taking a more integrated approach to financing the SDGs with reforms and follow-up including designing financing strategies for the SDGs; reforms to integrate SDGs in planning, budgeting, monitoring, reporting and administrative frameworks; initiatives for private sector to report against the SDGs; and capacity building of civil service on effective financing for development.

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Important gaps in implementation and knowledge need to be filled

Despite positive steps, integrated financing has yet to fully be implemented. To address this, donors have an important role. This section outlines immediate implementation gaps that should be filled and areas for further research and policy guidance.

Financing actors should actively support integrated national financing frameworks

Despite progress in developing the tools to support integrated national financing frameworks, substantial gaps remain:

- *Tools for integrated FSD need to reach critical mass*. So far, 25 Development Finance Assessments have been completed and the Financing for Stability methodology has been applied in six countries. A pipeline of Country Private Sector Diagnostics is underway, but the process now needs to be fully integrated into World Bank Group systems and partnerships.
- *Better co-ordination at the diagnostic phase is needed to align financing*. All DAC member countries who responded to the Global Outlook Survey on Financing for Sustainable Development noted that they rely on their own diagnostic tools, with other actors' tools used in a fragmented way in programming and implementation.[5]
- *Actors need to support and implement the findings*. Donor countries support the DFA analysis. Yet none of the DAC members who responded to the "Global Outlook Survey on Financing for Sustainable Development" use this analysis in their development activities (OECD, 2018[24]). As Box 6.3 suggests, it is not clear whether private sector or other actors are sufficiently engaged.
- Development actors can play a collaborative role in supporting countries' integrated national financing frameworks. In Mexico, for example, the German Federal Ministry for International Cooperation (GIZ) supports the Mexican federal government in developing a comprehensive architecture for the implementation of the 2030 Agenda that has already contributed to identifying national development priorities (Figure 6.5). The financing component comprises ongoing and planned initiatives: pilot recommendations for a sustainable fiscal framework at the subnational level; promotion of innovative multi-stakeholder financing mechanisms (e.g. results-based payments to finance the SDGs); from 2019 onwards,[6] and a planned collaboration to jointly foster enabling conditions for a financing sustainable development system.

Similar capacity development approaches and the sharing of South-South experiences may be particularly important in connection with the use of sophisticated financing modalities such as green bonds, diaspora bonds or public-private partnerships.

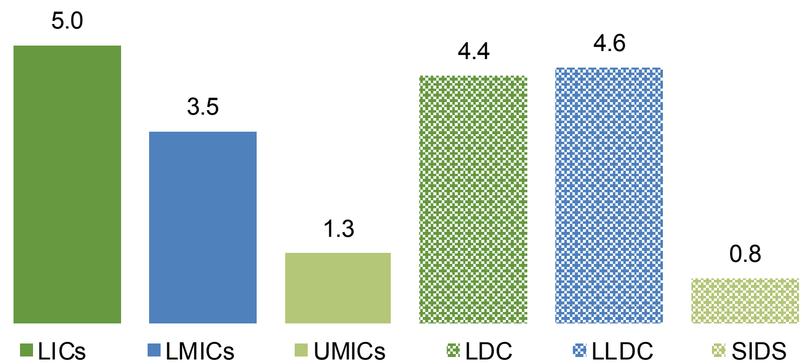
Figure 6.5. How international co-operation can support integrated financing of the 2030 Agenda: GIZ and the Mexican government

Source: Adapted from an illustration supplied by the German Corporation for International Cooperation (GIZ), Mexico.

Donor partnerships can be an important part of INFFs. But there are big gaps, as Figure 6.6 shows. The OECD's 2017 Survey on Donors' Forward Spending Plans highlights the drop-off in priority development partnerships as countries move towards graduation, and the low level of priority partnerships for small island developing states. Three least developed countries – Eritrea, Gambia and Lesotho – have no priority partnerships at all, while Ethiopia has 16 (OECD, 2017[25]).

Figure 6.6. DAC members' priority development partnerships

Average number of priority partnerships



Source: Author's calculations, based on OECD (2017[25]), "Survey on Donors' Forward Spending Plans", (unpublished).

StatLink http://dx.doi.org/10.1787/888933853395

Mechanisms are needed to create shared value and support country ownership

As they increase in diversity, new sources of finance need to support SDGs and country ownership. The Busan Partnership for Effective Development Co-operation specifies that countries' own and define the development priorities to be implemented. The investments of other actors should align with national strategic priorities and plans and use country systems as far as possible (OECD-UNDP, 2016[26]).

Country ownership is a pre-condition of successful implementation, but it can be challenging to achieve. Actors other than the developing country itself may finance different goals or work outside of the country system. For example, only 19 of 81 territories that participated in the Global Partnership for Effective Development Co-operation (GPEDC) monitoring had 60% or more of development co-operation in the government sector passing through country systems (OECD/UNDP, 2016[27]).[7]

In a complex financing environment, this challenge is amplified. But so too is opportunity. The GPEDC, in a forthcoming report, notes that evidence from Bangladesh, Egypt, El Salvador and Uganda suggests that the private sector wants to be a genuine partner to governments – and not simply a provider of FSD – to enhance country ownership of development priorities (Box 6.3).

Inclusive policy dialogue thus can be a crucial mechanism to engage diverse actors such as the private sector as partners, building buy-in while retaining the government's special role.

An additional benefit of policy dialogue is that it can engage actors in the planning and implementation of specific investments from an early stage. Effective follow-up processes and mutual accountability frameworks are needed to ensure all principles of development effectiveness – ownership, results, inclusive partnerships, transparency and accountability – are met (OECD, forthcoming[3]); (UN DESA, 2018[28]); (UNDP, 2017[29]).

Box 6.3. Inclusive dialogue is a key mechanism for effective private sector engagement

The Global Partnership for Effective Development Co-operation assesses the effectiveness of private sector engagement through development co-operation at country level. Case studies in Bangladesh, Egypt, El Salvador and Uganda identified several challenges in partnership arrangements between the private sector and the development co-operation actors. Findings of these case studies included the following:

- The creation of shared value is often lacking. Bangladesh and Uganda case studies revealed that development partners do not always sufficiently consider the business case when establishing partnerships.
- The private sector does not yet see alignment between business interest and social, environmental and economic sustainability. In Egypt and Bangladesh, private sector representatives sought a structured approach to inform the local private sector about the Sustainable Development Goals and how to address them.
- Private sector stakeholders across all four countries noted the need for development partners to simplify their procedures (e.g. application processes) to make partnerships more attractive.
- The explicit focus of private sector projects on target groups of development co-operation is limited. Only 11% of reviewed private sector projects target rural communities and only 4% target the poor.
- Private sector projects rarely include an explicit reference to their added social or developmental value, or what is called "development additionality". Only 12% of private sector projects reviewed had a results framework overall – a sign of a lack in agreed expected development outcomes.
- Only 16% of private sector projects reviewed report actual results and 38% have expected results available. Results are rarely communicated widely. The understanding of how individual private sector projects contribute to expected results is also lacking.

Inclusive policy dialogue, as one of the modalities of private sector engagement, appears to be a key instrument to help achieve the buy-in and ownership of both the private sector and development co-operation actors. It can foster effective partnerships and align interests, creating a shared understanding of sustainability from both the business and the development perspective. Inclusive policy dialogue is still an under-appreciated modality. Among 919 private sector projects, only 18 were supported by inclusive policy dialogue. To bridge this gap, the GPEDC aims to launch guidelines on effective private sector engagement in 2019.

Contributed by the Secretariat of the Global Partnership for Effective Development Co-operation

Blind spots remain in the links between actors and financing types

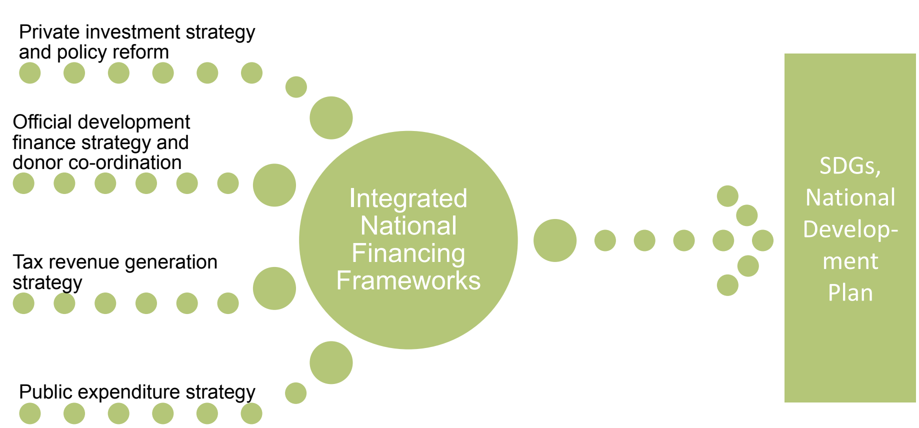
Specialist and diagnostic tools and strategies are available to support the AAAA action areas, from tax mobilisation to reform of investment enabling environments and financial market development[8]. Together, they form a patchwork with significant blind spots where further policy work is required to integrate financing and map it to financing needs (Figure 6.7).

Tools are still lacking to identify and leverage the links between financing sources. For example, data on amounts of private finance mobilised in support of development goals are improving but that is not the case for data on the amount of public finance used to achieve this mobilization. It is not yet evident how to ensure the effectiveness of blended finance actors or how best to engage the local private sector and support the investment enabling environment (OECD, 2017[30]). Nor is there consensus on how to ensure additionality – or even what type of additionality should be sought – when public funds play the role of leveraging private finance.[9]

The relationship between tax revenue and investment reveals another important blind spot where better knowledge could help release greater financing. Evidence is growing that it is not necessary to trade off rates of tax and investment, as uncertainty about the level of tax on profits may be a more important driver of investment decisions (OECD/IMF, 2018[31]).

As noted in Chapter 3, efforts are increasing to connect private sources of financing such as remittances to financing strategies but more must be done. In 2018, the DAC began collecting data on "remittance facilitation, promotion and optimisation". The funded activities included reducing the costs of remittances transfer (most common); increasing earning opportunities within each DAC member' own country; increasing data about remittance flows; supporting international co-operation; developing banking solutions; and increasing the proportion of low-income households with opportunities to earn and remit (OECD, 2018[24]).

Figure 6.7. Diagnostic tools need to be integrated into a coherent whole



Source: Author based on UN (2015[32]), *Addis Ababa Action Agenda of the Third International Conference on Financing for Development*, http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.

In addition to better integration of diagnostic tools, sometimes, individual diagnostics could be improved to support holistic approaches and help understand, prioritise and fill financing gaps (Box 6.4).

Box 6.4. Better tools can increase tax revenue mobilisation

There are a range of tools and approaches that are helping developing countries address challenges in international taxation. For countries that have joined the Inclusive Framework on BEPS and the Global Forum on Transparency and Exchange of Information for Tax Purposes, induction programmes offer high-level dialogue as well as the development of detailed roadmaps on the steps needed to implement these international standards. More specialist tools are being developed, including a transfer pricing needs assessment tool that helps countries to identify their transfer pricing priorities. The Platform for Collaboration on Tax is developing a series of eight toolkits on high-priority international taxation issues in developing countries.

Such tools help countries to increase their tax revenue. For example, Uganda has received technical assistance for several years from the African Tax Administration Forum, OECD, World Bank and Global Forum. Uganda also received direct support on tax audits from Tax Inspector Without Borders. Significant increases in revenue and improved taxpayer voluntary compliance are expected from better control of the cross-border transactions of multinational enterprises. Improved information exchange netted over USD 9 million in 2015/16.

There are also new and emerging tools supporting the tax system overall. The Platform for Collaboration on Tax is supporting the development and implementation of medium-term revenue strategies (MTRS). Such strategies help to move from high-level diagnostics of financing needs to an articulation of the contribution from revenue. Development partners can then support a five- to seven-year MTRS year plan for the development of a country's revenue systems. The first MTRSs are currently being developed in several countries. At the tax administration level the Tax Administration Diagnostic Assessment Tool (TADAT), which uses 28 high-level indicators, is the most established tool for assessing a country's tax administration system. A total of 34 countries have had TADAT diagnostics under the final version of the TADAT guide.

Contributed by the Centre for Tax Policy and Administration, OECD.

Financing for sustainable development solutions need to be tailored across different levels of governance

Critical implementation gaps include partnerships beyond the country level. There is no one size fits all, holistic approach; approaches must be tailored to integrate actors at the local, regional and global levels. These levels of governance are increasingly important for FSD.

Local and regional actors represent untapped opportunities

Ultimately, development is local. Subnational actors bring specific and under-explored comparative advantages in FSD. More must be done to support subnational actors to increase their development footprint. At the same time, globalisation has meant that supranational regional groupings[10] have an increased role. Both sets of actors should be integrated into financing for sustainable development approaches.

Local and regional actors are increasingly important financiers and implementers

Some development challenges are best handled below and above the country level. In some countries, half the national budget is now devoted to lower levels of government through education, general public services and social protection, among other government services. Subnational governments not only receive grants and revenue from higher levels of government, donors, and international organisations. They also are responsible for mobilising domestic resources; in Argentina and India, subnational governments receive over 50% of public tax revenues (OECD-UCLG, 2016[33]).

Above the country level, neighbouring countries are becoming more closely connected economically, socially, and financially than ever before, as recognised in paragraph 21 of the AAAA. This makes the regional level particularly important in the management of public goods, regional assets, trade and investment and regional responses to shocks. The following are some examples:

- Regional networks can provide economies of scale and support integration, as for example through investments in ICT and transportation corridors and the five regional power pools in Africa[11] (Karekaho, 2017[34]).
- Regional approaches can be deployed to more effectively manage common natural resources such as highly migratory fish stocks in the South Pacific (UNDP-GEF, 2016[35]).
- Regional financing approaches can overcome capacity constraints to allow greater access to finance by more countries, as shown by the World Bank's aviation safety project involving Tonga, Tuvalu and the World Bank (World Bank, 2011[36]).
- Trade and investment corridors help local suppliers to access markets and require co-ordinated investments and institutional links to decrease costs throughout the corridor (Arvis et al., 2011[38]).

Realising this potential, and aligning to country priorities and SDGs, does not happen automatically. For example, without the accompanying skills, technical capacities, financial resources and oversight, decentralisation can result in negative impacts on local development (Vujanovic, 2017[37]).

To tap this potential, then, capacity building, support to engage the private sector, as well as better mechanisms for dialogue and co-ordination with the donor community at the local and regional level are all needed.

Box 6.5. In My View: The local challenges of financing sustainable development by Anuradha Thakur, Ministry of Finance, India

Translating the global Sustainable Development Goals (SDGs) into local commitments takes a multi-pronged, multi-stakeholder approach. India has been a strong supporter of the Millennium Development Goals (MDGs) and the SDGs, and a convincing advocate and promoter at the UN. Starting at that global level, the SDGs come down to us in Himachal Pradesh, a small hill state in India.

First, interdepartmental working groups were constituted to develop a seven-year strategy and a three-year action plan, all neatly dovetailing into the state vision document for the SDGs. The UN offered technical and financial support. The 169 targets had already been broken down to around 300 indicators by the central ministry but the working groups were given the flexibility to modify them.

For SDG 6, we undertook a detailed situation analysis, gap analysis and resourcing assessment. Taking the example of Goal 6.1 – to achieve 100% access to all for safe and affordable drinking water – it was assessed that a total of about USD 1.3 billion would be needed over the next three years to complete and augment existing schemes and to implement new ones. Of this, the state budget would provide about USD 800 million, and projects had been already posed for funding by the BRICS Bank and Japan International Cooperation Agency (JICA). The BRICS Bank agreed to take up one of the projects for about USD 100 million. Other sub-goals needed even greater resources for sewage management, improving quality, operation and maintenance, and sustaining water sources.

The lessons learned are critical:

- Pro-active leadership at the state level is important – to set indicators, link the state budget with the SDGs, judge relative priorities and ensure that SDGs are mainstreamed into regular government functioning.
- Capacity and network building at the state and below is a crucial piece of the puzzle to ensure that lower levels of government have the ability to see the whole picture, learn what resources there are to access and how, develop expertise to draw in the private sector for those aspects where there could be revenue sharing and to draw in the community as well for maintenance and upkeep. Without these skills, there is overdependence on already stretched state budgets and under-achievement of targets.
- The private sector and innovative financing mechanisms are not available for all sectors or levels of governance and may require too much upstream work given the pressing need to deliver on

sectors such as water.

- The donor community needs to see the enormity of funding and policy work required beyond country strategies. Something deeper needs to be achieved by engaging with the donor community in terms of institutional change and good practice. The Ministry of Finance of the government of India has devised a "Finance Plus" filter to ensure this. The achievement of the SDGs will need a fair amount of financial support and a fair amount of added benefits. The donor community has to respond to this.
- There is a need to work better together as associates and not as competitors at country and regional level, harmonising donor priorities with country priorities.
- Monitoring of SDG achievement needs to be embedded in the national and local system.

Anuradha Thakur is a member of the premier civil service of India, the IAS (Indian Administrative Service). This essay reflects her personal opinion gained from her experience as Principal Secretary of the Irrigation and Public Health Department and as Principal Secretary, Social Justice and Empowerment Department of the government of Himachal Pradesh, while working out the Action Plan for accomplishment of SDG 5 and SDG 6 in the State of Himachal Pradesh.

New tools can boost the local and regional contribution to financing sustainable development

Innovative instruments, partnerships and policies at the subnational and regional level present new opportunities. Some examples include:

- Sub-national pooled financing mechanisms (SPFMs) allow local governments to jointly access public sector funding, private capital markets and bank finance. This can help to overcome limitations of scale, expertise and credit history and thus reduce the costs of finance and increase efficiency. SPFMs can also develop local markets and increase standards of transparency, reporting and results (FMDV, 2017[38]).
- The European Union's Trade for All Strategy commits the European Union to a responsible trade and investment policy as an instrument of SDG implementation (European Commission, 2017[39]). Regulatory coherence mechanisms – particularly important for investment into regional infrastructure such as ICT – were explored through the Trans-Pacific Partnership negotiations (Bollyky, 2012[40]).

Multi-stakeholder partnerships can support subnational and supranational levels of governance to play an important role in financing sustainable development. For example, the R20 (subnational) Regions of Climate Action is a global partnership that aims to ensure cities and regions are leaders in reducing global carbon emissions (Box 6.6).

Box 6.6. R20 Regions of climate action

Founded in 2011 by Arnold Schwarzenegger, a former governor of the state of California, R20 is a coalition of subnational governments, private companies, international organisations, NGOs, and academic and financial institutions. It supports subnational governments in reducing carbon emissions and works towards a green economy through renewable energy, waste management and energy efficiency projects, in line with the Paris Climate Agreement, SDG 7 promoting affordable and clean energy and SDG 12 for responsible consumption and production. R20 aims to implement 100 infrastructure projects with USD 3 billion worthy capital expenditure by 2020. Since October 2014, R20 works with the State of Rio de Janeiro, 40 cities, technical partners and investors to retrofit street lights to energy-saving LEDs, with investor returns linked to energy and maintenance savings.

Local governments have a critical role to play in building climate-resilient societies. For instance, research by Yale University finds that sub-national programmes in eight countries alone could reduce 2020 emissions by 1 gigaton (Hsu et al., 2015[41]), – global carbon emissions were 32.5 gigatons in 2017 (IEA, 2018[42]). Municipalities are where such actions could matter most, as cities account for 60 to 80% of global CO^2 emissions (UNEP, 2017[43]).

Note: Additional information can be found at http://www.climate-kic.org/news/certification-standards-matter-city-level-climate-interventions/#_ftn1 and at: https://regions20.org/about-us-2/.

Global platforms and partnerships can bring systemic change

Financing for sustainable development actors must co-ordinate action across communities

Countries and partners, including the OECD, must prioritise the FSD agenda in order to achieve the promise of the Addis Ababa Action Agenda. This means working to strengthen international mechanisms, among them the UN-led Forum on Financing for Sustainable Development process (Chapter 1), and using global platforms to build bridges between policy communities - such as the e.g. Group of Twenty (G20), Group of 77 (G77) and Group of 7 (G7). The Charlevoix G7 meeting, which brought together finance and development ministers in pursuit of innovative finance, is one example of a global initiative designed to have concrete local effects. Efforts will continue under the Argentine and Japanese G20 presidencies, which will focus on infrastructure for development and quality standards respectively.

Global platforms can play a concrete role in building political will and co-ordinating the efforts of diverse communities. The G20 Compact With Africa demonstrates how political leadership can bring together multiple actors to achieve concrete, measurable results for local communities (Box 6.7).

Box 6.7. Compact with Africa

Initiated under the German G20 presidency, the Compact With Africa (CWA) was situated in the context of Agenda 2030 and the African Union's 2063 Agenda. The 2017 Hamburg summit launched the CWA as real GDP growth on the African continent declined and sovereign debt grew. The overarching goal of the CWA is to mobilise African and international governments and other partners to take concrete steps to increase private investment and particularly to fill the infrastructure gap. Under the overall CWA banner, each participant country selects its priorities. The actions to achieve those priorities are agreed under three pillars: a macroeconomic framework (including public expenditure, debt, tax, etc.); a business framework (improving the regulatory and enabling environment), and a financing framework (reducing costs and risks through de-risking instruments, reducing restrictions and developing domestic investment) (African Development Bank-IMF-World Bank Group, 2017[44]).

Compacts were agreed with the initial set of countries of Côte d'Ivoire, Ethiopia, Ghana, Morocco, Rwanda, Senegal and Tunisia and other countries are to be invited to join on a demand basis. A policy matrix was agreed under each of the three pillars, with G20 partners and institutions (IMF, World Bank Group and African Development Bank) assigned specific roles to support for implementation. The G20 private sector was encouraged to join as "pioneering investors". The CWA was complemented by the Marshall Plan with Africa that expands the agenda to include political governance, peace and security (German BMZ, 2017[45]).

Global mechanisms must be strengthened to maximise resources, especially for global public goods

Specialist and global funds are a major source of financing particularly for global public goods. They present a growing challenge in terms of prioritising and identifying gaps in tandem with the increasing the number of funds and volume of financing that is being sought. The International Development Association (IDA) is the world's largest trust fund, for example, and it attracted USD 75 billion at its IDA18 replenishment round (World Bank, 2016[46]). Currently, it is not clear how donors are prioritising and should prioritise across funds targeting climate, health, emergency relief and other aims. Maximising impact requires a better understanding of where and how much to allocate.

Global-level partnerships and instruments must be strengthened as they provide the opportunity to invest in deep systems change and cross-fertilise lessons from one region to another. A promising example from the philanthropic community is the Co-Impact platform, a new global philanthropists' collective that is partnering with social leaders, governments, non-profits and the private sector. With a target USD 500 million in initial funding, Co-Impact provides multi-year grants to:

- groups of partners from across sectors undertaking systems change plans to achieve change at scale, at the national or regional level

- groups taking what it terms a societal platforms approach to scaling, building a shared, universal infrastructure that allows a group's approach to translate geographies and contexts and grow networks of new partners

Global-level platforms are also critical for identifying opportunities for shared value and innovation that can be difficult to scale down. Smaller companies, for example, are less likely to be able to engage in development partnerships (OECD, forthcoming[3]) while the administrative costs of financial innovations such as green bond issuances or an advanced market commitment mean such financial instruments are often best handled at global scale.[12]

Global mechanisms are also critical to manage risk, with the oldest example being the IMF. Finance for sustainable development should be increasingly reflected in economic monitoring such as the IMF's Article IV consultations and OECD economic surveys. As discussed in Chapter 5, the impact of global policies and regulation from the perspective of financing for sustainable development must also be taken in consideration; for example, the impact of Basel III and other financial regulation must be considered (Domanski, 2018[47]).

Funding gaps remain across sectors and policy goals

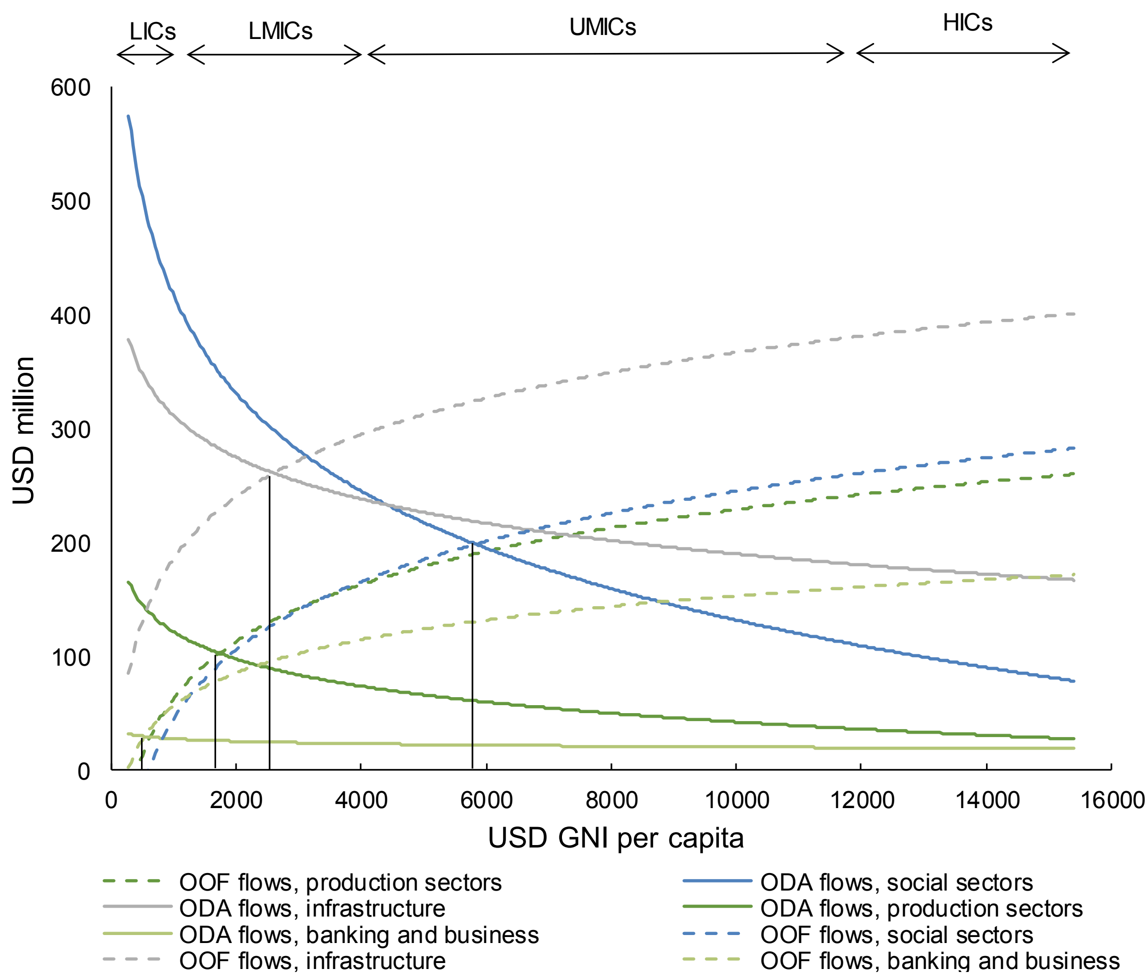
The implementation of holistic approaches should be tailored not only to country contexts, but also to sector and policy specificities, such as gender or climate.

Understanding the dynamic effects across sectors is crucial to avoid funding gaps as countries transition

New OECD work on transition finance shows that the dynamics affecting countries as they transition vary greatly by sector, as shown in Figure 6.8[13] DAC donors, for example, provide concessional (ODA) and non-concessional (other financial flows, or OOF) in different ways and according to the income level and the sector in question.

Figure 6.8. Monitoring the sectors at risk: Official development assistance and other official flows to developing countries 2012-16

From DAC members and multilaterals, 2015 prices, absolute terms



Note: This graph presents logarithmic trend lines.
Source: Author's calculations based on the OECD (2018[9]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1 for ODA and OOF flows; and the World Bank (2017[48]) "World Development Indicators" (database), https://datacatalog.worldbank.org/dataset/world-development-indicators for GNI per capita.

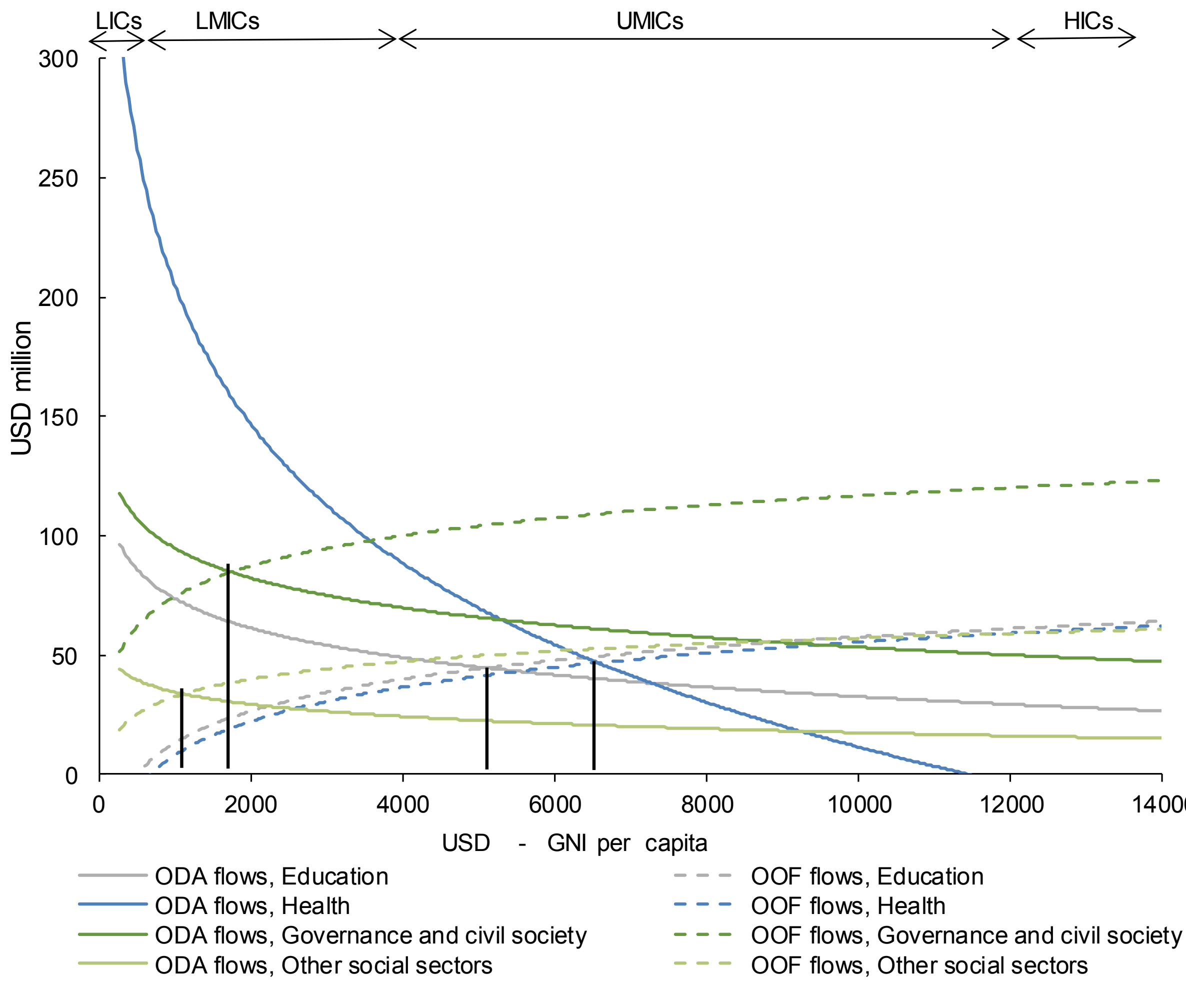
StatLink http://dx.doi.org/10.1787/888933853414

For some sectors such as banking and business, ODA appears to remain stable across income levels even as OOF increases. For productive sectors and infrastructure, the phasing out of ODA appears relatively evenly matched with the phasing in of OOF, although this may mask gaps for individual countries or sub-sectors.[14]

However, as income increases and concessional finance reduces, non-concessional finance may not increase correspondingly. This suggests potential transition gaps, particularly in the health sector. Figure 6.9 provides a disaggregated view of transition in social sectors. Health shows a high starting point and a sharp decline that is not observed in education, governance and other sectors.

Figure 6.9. Identifying transition gaps: Official development assistance and other official flows to social sectors 2012-16

From DAC members and multilaterals, 2015 prices, absolute terms



Note: This graph presents logarithmic trend lines.
Source: Author's calculations based on OECD (2018[9]), "Creditor Reporting System" (database), https://stats.oecd.org/Index.aspx?DataSetCode=crs1 for ODA and OOF flows; and the World Bank (2017[48]) "World Development Indicators" (database), https://datacatalog.worldbank.org/dataset/world-development-indicators for GNI per capita.

StatLink http://dx.doi.org/10.1787/888933853433

A transition gap, as it could be called, may thus emerge unless social sector investment needs are lower or other financing – be it private, philanthropic or domestic public expenditure – is stepping in.

Development communities have started to respond to such gaps at the country level. The UN Conference on Trade and Development (UNCTAD), for example, provides special transitional support to countries as they graduate from LDC status. In a similar vein, the Economic Commission for Latin America and the Caribbean (ECLAC) has developed the Structural Gap Analysis approach to identify new ways to secure finance for middle-income countries in the region (UN, 2012[49]). Within IDA, special transition arrangements were established for the Plurinational State of Bolivia, India, Sri Lanka and Viet Nam as they transitioned out of IDA eligibility and faced a substantial drop-off in development finance.

Nonetheless, further work is needed to respond to questions raised by these transitions across sectors. In the health sector, for example, what role are non-donor actors playing as concessional finance reduces? Is tax revenue-funded expenditure or private investment increasing, and if not, what can be done to support this transition? How are governments managing any transition gap and what are benchmark countries doing? Finally, how can donors best support a sustainable transition?

Further work also is needed to advise donors on options for ensuring sustainable transitions, for example by change allocation patterns, leveraging additional resources, and working with countries and sectors upstream to lay the groundwork for new forms of financing. Such work should complement and integrate existing needs and reform assessments. These assessments include World Health Organization work on health systems financing (McIntyre and Kutzin, 2016[50]) and OECD production transformation policy reviews of economic sectors (OECD Development Centre, 2018[51]).

Accelerating gender equality requires co-ordination across financing and policy

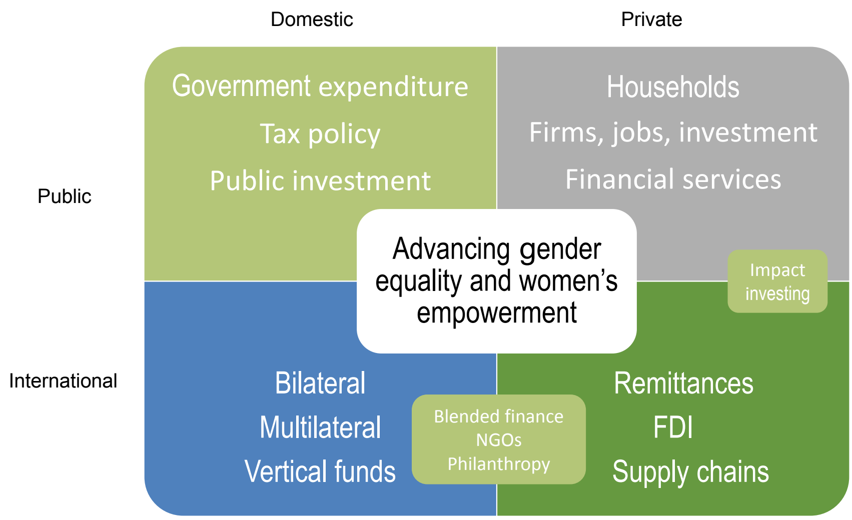
The 2030 Agenda commits to a significant increase in investments to close the gender gap and achieve SDG 5 (gender equality) (UN, 2015[52]). Gender equality is essential to ensure women's rights and could add trillions to global GDP (Woetzel and et al., 2015[53]).

Recently, the focus has been on gender-responsive budgeting to achieve gender equality; more than 80 governments have committed to some form of gender-responsive budgeting (Stotsky, 2016[54]) and donors are providing financial support for implementation (OECD, 2018[24]). Yet significant gaps remain in investment and impact (Downes, Trapp and Nicol, 2017[55]); (UN Women, 2015[56]).

To accelerate progress on gender equality, better mapping and co-ordination of actors are needed so financing is linked to policy. Recent work, notably by the IMF, suggests which spending and policies can jointly have the biggest impacts (Jain-Chandra et al., 2018[57]), but more gender-disaggregated data, experimentation and evaluation will be needed (World Bank, 2012[58]).

Accelerating gender equality furthermore requires co-ordinated action across countries, companies, foundations and other providers of finance. Figure 6.10 provides a non-exhaustive typology of the different financing sources required.

Figure 6.10. Towards a typology of financing sources for gender equality



Source: Author's illustration based on UN (2015[32]), *Addis Ababa Action Agenda of the Third International Conference on Financing for Development,* http://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf.

Diverse financing sources can be harnessed by countries and individuals to support gender equality:

- Domestic resource mobilisation can increase or constrain gender equality. Personal income taxes can be structured in ways that encourage or discourage women from paid work through choices such as progressive tax credits, individual versus family taxation and taxation of the informal economy.
- Women directly receive a substantial proportion of remittances in some countries, for example 63% in Guatemala and 70% in Colombia (IOM/UN INSTRAW, 2007[59]), (IOM/UN INSTRAW, 2007[60]). Further work should be carried out to determine how policy can support an enabling environment for remittances (Chapter 3) and increase their impact on gender equality, for example through opportunities for productive investments.

Companies, foundations and other private providers of finance can have substantial impact by applying a gender lens. Policy efforts such as those outlined in Chapter 5 are increasing to ensure high standards by foreign direct investors, including in female-dominated sectors such as the garment industry. For multinational enterprises, as well as international, responsible supply chain standards, can influence policies and practices. Policies on recruitment, conditions, advancement and procurement choices all can affect women's empowerment.

The volume of foundation financing of women's empowerment initiatives was estimated at around USD 3.7 billion over 2013-15. The Bill & Melinda Gates Foundation (43%) and the Susan Thompson Buffett Foundation (19%) dominated the field of foundations financing such initiatives (OECD, 2018[2]).[15] The OECD Network of Foundations Working for Development (netFWD) has launched a working group on gender to examine funding trends in greater depth.

Private actors are also engaging in innovative partnerships for gender equality (Box 6.8).

Box 6.8. Innovative partnerships can drive gender equality

Innovative partnerships for gender equality are blossoming

The G7's **2X Challenge**, launched under Canada's leadership at the Charlevoix summit, calls for the mobilisation of USD 3 billion to provide women in developing countries with improved access to leadership opportunities, quality employment, finance, enterprise support, and products and services that enhance economic participation and access.

The **Women's World Banking Capital Partners Fund II** (WWBCP II) aims to improve women's financial inclusion by leveraging concessional equity to attract investors to women-focused financial services providers in emerging markets, low-income countries and fragile contexts. The USD 100-million fund will invest in services such as financing for small and medium-sized enterprises, smallholder finance, affordable housing, education, and insurance. The largest allocations will be in sub-Saharan Africa, the Middle East and North Africa, and South Asia.

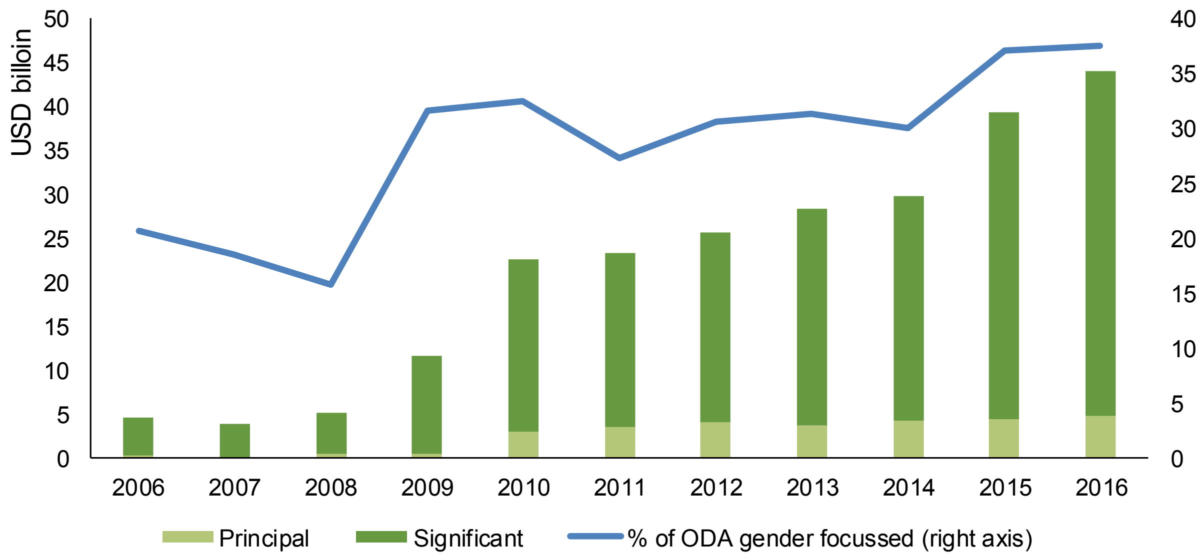
Entrepreneurship programmes also are focusing on women's empowerment, including the Goldman Sachs **10,000 Women** programme that is active in 43 countries and the Coca-Cola **5x20** programme, which aims to help 5 million women entrepreneurs by 2020 and is active in more than 12 countries.

The **Global Impact Investing Network** looks for investment strategies that seek to intentionally and measurably address gender disparities and/or examine gender dynamics to better inform investment decisions.[16]

Although bilateral ODA that integrates gender equality as a significant (albeit secondary) objective has increased over time, more must be done at the level of providers:

- ODA with gender equality as a principal objective lags behind what is needed to achieve commitments in the 2030 Agenda.[17] Figure 6.11 illustrates the proportion of ODA aimed at gender equality. The OECD DAC Network on Gender Equality has called on DAC members to strengthen their gender equality programming in the economic and productive sectors, particularly in areas where the private sector is unlikely to invest (OECD DAC, 2018[61]); (OECD DAC, 2016[62]).
- While funds such as the Global Fund for Women are dedicated to gender equality and women's empowerment, most vertical funds and instruments (Chapter 2) do not yet incorporate a gender equality perspective. Within green finance, for example, only the Green Climate Fund has explicitly mainstreamed gender considerations (Green Climate Fund, 2014[63]). The potential gender equality impact of new instruments such as taxes on international financial transactions and air travel should be included in their design.

Figure 6.11. The proportion of official development assistance that aims to achieve gender equality



Source: OECD DAC (2018[61]), "Aid to Gender Equality and Women's Empowerment: An Overview". https://www.oecd.org/dac/gender-development/Aid-to-gender-overview-2018.pdf.

StatLink http://dx.doi.org/10.1787/888933853452

The urgent need to achieve the climate transition requires all financing to move towards compatibility with the Paris Agreement

The Paris Agreement on Climate Change and the 2030 Agenda are inextricably linked and neither will succeed if one fails. With just 12 years left to cut fossil fuels, the climate agenda has never been more urgent (Intergovernmental Panel on Climate Change, 2018[64]).

The recent OECD (2017[65]) report, *Investing in Climate, Investing in Growth*, argues that a low emissions future is necessary for economic growth, increased productivity and reduced inequalities and notes that in the long run, GDP growth could increase by up to 2.8% on average in 2050 if a coherent package of financing and policy across the G20 is achieved.

For example, deep changes in how energy is used and produced are required, which governments can only achieve in partnership with others (Box 6.9). To keep within the International Energy Agency's (IEA) 2-degree scenario, by 2050, 95% of electricity needs to be low carbon; 70% of new cars need to be electric; and the CO2 intensity of industry needs to be 80% lower than it is today (OECD, 2017[65]).[18]

Box 6.9. Innovative partnerships can accelerate the climate transition

At the architecture level, the NDC Partnership is a coalition of countries and development co-operation providers that promotes the strengthening and implementation of nationally determined contributions (NDCs) in developing countries through technical assistance.

Emerging economies are driving new coalitions to promote low-carbon infrastructure such as the International Solar Alliance, a large-scale initiative that is driven by India and aims to scale up deployment of solar energy, with a target of mobilising USD 1 trillion by 2030.

Public-private coalitions are emerging. One is the Global Innovation Lab for Climate Finance, which disseminates small- and large-scale innovative solutions and instruments to build new markets, attract new investors and increase climate-friendly investment in developing countries. Similarly, investors, development banks, financial sector associations and NGOs launched the Green Infrastructure Investment Coalition launched by at COP21 as a platform to spur commercial investment in environmentally sustainable infrastructure projects.[19]

To achieve these needed climate goals, diverse financing sources can be harnessed by countries and domestic actors:

- Domestic resource mobilisation must be reviewed to be compatible with the Paris Agreement. The mix and structure of taxation and expenditure are critical to align incentives towards inclusive, low-emission and resilient development. These not only have a direct effect but also can catalyse industrial and business model innovation. Further, green fiscal policies such as carbon taxes can bring broader development finance wins such as substantial reductions in public debt-to-GDP (OECD, 2017[65]).
- Mobilising the required financing requires a positive enabling environment for green investments, reform of energy state-owned enterprises (SoEs), etc. Beyond the energy sector, reform of land use sectors such as agriculture and forestry can help to scale up the transformation; ecosystems need to be enhanced as carbon sinks. Research and development also need to be strengthened and incentivised to tackle emissions from energy, industry and transport and to improve agricultural yields and resilience (OECD, 2017[65]).
- Diagnostic tools such as the mobilising private finance tool developed by the Overseas Development Institute (Whitley, Canales Trujillo and Norman, 2016[66]) and the OECD's Policy Framework for Investment can help map needs, incentives and guide green investments.
- National development banks contributed 21% of primary financing for privately financed infrastructure projects in developing economies and could be key domestic partners in increasing finance (Box 6.10).

Box 6.10. National development banks can be key innovators and intermediaries in green infrastructure finance

Low-carbon, climate-resilient infrastructure is a foundation of the climate transition, which requires policies to align and differing financing actors to work together. National development banks (NDBs) can be key connectors, partners and innovators. In South Africa, for example, the Development Bank of Southern Africa is financing the development of renewable energy projects.

NDBs banks are in a privileged position to understand country-specific bottlenecks to low-carbon infrastructure investments due to their closeness to market and long-standing relationships with local actors, both public and private. NDBs can mobilise local private finance based on their special status within their countries (Smallridge et al., 2013[67]). In India, NDBs have access to soft funds from the Reserve Bank of India and can issue securities that qualify as reserves (Kumar, 2016[68]). NDBs are also important intermediaries to channel international development finance, for example from the Green Climate Fund. Figure 6.12 illustrates some of their main features.

Figure 6.12. Key features of national development banks

Source: Smallridge et al (2013[67]), *The Role of National Development Banks in Catalyzing International Climate Finance*, https://publications.iadb.org/bitstream/handle/11319/3478/Role%20of%20NDB%203-12-13final%20web.pdf?sequence=2.

Companies, foundations and other private financiers have a major role to play. Businesses can benefit from the opportunities that green growth presents and also need to manage risks from climate change (Crishna Morgado and Lasfargues, 2017[69]). For example:

- Institutional investors are convening around groups such as the Institutional Investors Group on Climate Change (IIGCC). With a membership comprising of nine of the ten largest institutional investors in Europe and over EUR 13 trillion in funds under management, IIGCC aims to minimise losses from stranded assets and other climate risks by lobbying for climate-friendly policy and investment behaviour.
- The financial system itself needs to better value and incorporate climate-related risks, for example by mainstreaming climate risk into the financial disclosures required for publicly listed companies. This is especially important for large asset owners and managers, many of whom are based in OECD countries (Task Force on Climate-related Financial Disclosures, 2017[70]).
- Philanthropy represents a growing financing source for climate transition in developing countries. The Philanthropy Task Force for the implementation of the Paris Agreement was launched during the One Planet Summit in Paris in December 2017 to identify priorities for further philanthropic investment, models for innovative partnerships and innovative solutions to raise climate finance.

Internationally, official actors have made – and now must implement – substantial commitments. In France, the AFD has set two targets. One was to channel 50% of its annual funding to projects with climate co-benefits, which it achieved in 2017. The second is a target of EUR 5 billion of climate finance by 2020, EUR 1.5 billion of which is for adaptation (OECD, 2017[65]).

- Bilateral climate-related development finance is on an upward trend, exceeding USD 30 billion in 2016, with mitigation finance dominating.[20] This must be matched by policy coherence. As high-income and G20 countries are responsible for the bulk of global emissions, bilateral actors must play a leadership role to ensure policy and financing coherence in support of the low-carbon transition.
- Bilateral development banks are also increasing their focus on climate finance and low-carbon infrastructure. On average between 2013 and 2015, 68% of AFD financing for infrastructure, 58% of such financing from KfW Development Bank and 40% of JICA's financing for infrastructure targeted climate change directly (OECD, 2017[65]).
- Multinational development banks (MDBs) have made significant commitments towards green finance, supporting more than one-third of estimated flows of public climate finance in 2013-14 under the USD 100 billion-commitment (OECD, 2015[71]). Between 2006 and 2016, the share of MDB support for renewable energy technologies (excluding hydropower) grew significantly (13% annually) but was still outstripped by the share of support for fossil fuels (15.7% annually), a trend that must be changed (OECD, 2017[65]).

The universe of financing actors is diverse and each brings its own comparative advantages to financing the climate transition. However, all must work in concert if the urgent change required is to be achieved. The world's ambitious and necessary climate aims require that financing for sustainable development from all sources be reviewed to move towards compatibility with the Paris Agreement.

Conclusion and recommendations

To reach full potential, the FSD system must put in place the key final element of its challenges – operations, where demand for financing for sustainable development meets supply. As described in this chapter, a number of tools are evolving to help financing actors to co-ordinate while fulfilling their niche roles. A core component is the integrated national financing frameworks (INFFs) that are called for in the Addis Ababa Action Agenda (paragraph 9). Yet the design of INFFs and mapping of opportunities remain incomplete, and important levels of governance, country and sector specificities are yet to be fully integrated.

While it is too soon to fully assess the efficacy of all FSD tools, **it is already clear that a more coherent FSD toolkit is needed and that gaps in its implementation need to be addressed** in line with SDG 17 (partnerships for the goals) and principles of effective development co-operation. Therefore, the following are necessary steps:

- Fill the INFF implementation gap by promoting a coherent FSD toolkit and moving from a plethora of diagnostics to co-ordinated implementation of recommendations.
- Promote multi-stakeholder partnerships and mechanisms such as inclusive policy dialogue to and ensure alignment of financing with country ownership.
- Build capacity in developing countries to manage the complexity of the FSD market, both in driving priorities (ownership) and co-ordinating actors, and to fill capacity gaps such as managing specific instruments.

Solutions need to be tailored to sectors and integrate different levels of governance.

- Develop FSD strategies adapted to country specificities such as those pertaining to small island states, landlocked states and least developed countries, building on the example of Financing for Stability.
- Explore opportunities for partnerships and new financing mechanisms at the subnational, regional and global levels. Actors could explore the inclusion of the SDGs in regional trade and investment agreements; support partnerships and capacity development among subnational governments; and map global funds and explore how to mobilise additional financing for global public goods.
- Further map specific sectors and policy goals for FSD opportunities, for example moving towards development finance that is compatible with the Paris Agreement on Climate Change.

Expand the state-of-the-art knowledge about FSD. Further research and policy guidance are needed to fill knowledge gaps and deliver more effective financing.

- As INFFs are implemented, evaluate their effectiveness and develop guidelines on what works.
- Further explore the role of different FSD actors and sources in sectors and policies as countries transition in order to avoid setbacks as countries lose access to concessional finance.
- Further explore how to articulate roles among financing actors. Examples include making best use of private and blended finance, integrating remittances into

financing strategies, and improving diagnostics to find and fill SDG financing gaps.

Along with efforts to achieve transparency (Chapter 5) and better regulation (Chapter 6), transforming operations in this way will help actors to assess financing and policy needs, map resources, and deliver the partnerships, innovation and capacity development required to achieve the SDGs.

Notes

[1] The Copenhagen Consensus Center advises governments on prioritising the SDGs, making use of methodologies based in welfare economics and cost-benefit analysis https://www.copenhagenconsensus.com/.

[2] The MDCR methodology makes use of Vulnerability-Adjusted Tax Effort Index developed by the Foundation for Studies and Research on International Development (FERDI). For further information on the index, see (Yohou and Goujon, 2017[96]) http://www.ferdi.fr/sites/www.ferdi.fr/files/publication/fichiers/p186-ferdi_hyohou-mgoujon_0.pdf.

[3] Of 81 low-income and middle-income countries and territories that participated in the 2016 Global Partnership for Effective Development Co-operation monitoring, 80 had a national development strategy at the country and sector level. See (OECD-UNDP, 2016[26]) for further details.

[4] Many governments use aid management platforms among them Côte d'Ivoire, Jordan, Kyrgyzstan, Lao People's Democratic Republic, Malawi, Madagascar and Nepal.

[5] The source is the Global Outlook on Financing for Sustainable Development Survey.

[6] Following 2018 federal elections, these proposals are subject to discussions with the incoming federal government of Mexico.

[7] GPEDC monitoring indicator nine emphasises the quality and use of country public financial management and procurement systems. Where development partners do not use country systems, a lack of confidence in the quality of PFM systems is often cited as the reason why.

[8] The seven Addis Ababa Action Agenda action areas are domestic public resources; domestic and international private business and finance; international development co-operation; international trade as an engine for development; debt and debt sustainability; addressing systemic issues; and science, technology, innovation and capacity building. A myriad of sectoral and thematic implementation actions are included within these broad action areas.

[9] Respondents to the "Global Outlook on Financing for Sustainable Development Survey of DAC Members" gave varying criteria for additionality including economically and socially responsible business conduct and increasing human capital to increasing the proportion of micro and small and medium-size enterprises in the economy (OECD, 2018[24]). Several countries report they are developing criteria for additionality.

[10] Here, regional refers to the supranational rather than the subnational level of governance.

[11] The five are the Power Pools of East Africa, Western Africa, Southern Africa, Central Africa and the Maghreb.

[12] The original advanced market commitment was for USD 1.5 billion for the pneumococcal vaccine.

[13] A country in transition should be considered a success story, but such countries also face special challenges. For example, the transition out of least developed country status brings the loss of concessions and preferences such as tariff and quota-free trade access. Additionally, changes in income group classification can decrease the volume and increase the price of development finance, which may not be mirrored by increases in volume and decreases in price of market-based instruments. Moreover, once countries are in the high-income classification for three consecutive years, they transition out of ODA-eligibility.

[14] Graphs 6.8 and 6.9 provide an illustration of trends in ODA and OOF as they relate to growth in GNI per capita. Actual financing gaps are context-specific and depend on other variable as well.

[15] This is estimated differently than the gender markers referred to above, and includes activities recorded under the OECD (2018[9]) Creditor Reporting System database purpose codes related to support to women's equality organisations, ending violence against women and girls, reproductive health care, family planning and other activities supporting women and girls as suggested by qualitative information in descriptive fields of individual activities.

[16] For more information, see https://thegiin.org/gender-lens-investing-initiative.

[17] In 2015-16, dedicated programming focussed on gender equality as a principal objective amounted to USD 4.6 billion per year, corresponding to 4% of DAC members' total bilateral allocable aid. Out of the USD 4.6 billion of aid for dedicated programmes targeting gender equality and women's empowerment as a principal objective, the largest amount is allocated in the government and civil society sector, followed by population and reproductive health and health. On the other hand, very little aid dedicated to gender equality as a principal objective is committed in the sectors of economic infrastructure and services, business, and banking and financial services. See also (OECD DAC, 2018[61]), https://www.oecd.org/dac/gender-development/Aid-to-gender-overview-2018.pdf and (OECD DAC, 2016[62]), https://www.oecd.org/dac/gender-development/Tracking-the-money-for-womens-economic-empowerment.pdf.

[18] Since investment gap for infrastructure is highest for middle-income countries, ensuring the climate compatibility of the infrastructure that is built in these countries will help determine whether the Paris Agreement goals are met or not (OECD, 2017[65]).

[19] Further information is at https://ndcpartnership.org/, http://isolaralliance.org/ and https://www.climatefinancelab.org/the-labs/global/.

[20] Adaptation-related development finance was committed primarily to LMICs (32%) and LICs, including LDCs. At just 8%, LICs had the highest share of adaptation-related development finance over total development finance.

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