Key Elements of a Successful Addis Ababa Accord on Financing for Sustainable Development

A Working Paper prepared by the Leadership Council of the Sustainable Development Solutions Network (SDSN)

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Working Paper

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Acronyms and Abbreviations

BEPS – Base Erosion and Profit Shifting
BIS – Bank for International Settlements
CCS – Carbon Capture and Storage
COP21 – 21st Conference of the Parties under the UNFCCC
CSR – Corporate Social Responsibility
DBR – Domestic Budget Revenues
DFIs – Development Finance Institutions
FDI – Foreign Direct Investment
FfD – Financing for Development
Gavi – The Global Alliance on Vaccines and Immunisation; the Vaccine Alliance
GCF – Green Climate Fund
GDP – Gross Domestic Product
GEF – Global Environmental Facility
GFATM – Global Fund to Fight AIDS, Tuberculosis and Malaria
GFE – Global Fund for Education
GFH – Global Fund for Health
GNI – Gross National Income
HICs – High-Income Countries
IAC - Infrastructure Asset Class
IATI – International Aid Transparency Initiative
ICT – Information and Communications Technology
IDA – International Development Association
IDF – International Development Financing
IFAD – International Fund for Agricultural Development
IMF – International Monetary Fund
IPPFs – Infrastructure Project Preparation Facilities
KfW – Reconstruction Credit Institute
LDCs – Least Developed Countries
LICs – Low-Income Countries
LMICs – Lower-Middle-Income Countries
MDBs – Multilateral Development Banks
MDFC – Multilateral Development Finance Committee
MDGs – Millennium Development Goals
NGOs – Non-Governmental Organizations
ODA – Official Development Assistance
ODA-C – ODA for Climate
OECD – Organisation for Economic Co-operation and Development
OECD-DAC – OECD Development Assistance Committee
OOF – Other Official Flows
OOF-C – OOF for Climate
PIDA – Programme on Infrastructure Development in Africa
PFM – Private Funds Mobilized
PFM-C – PFM for Climate
PPP – Public-Private Partnership
REDD+ – Reducing Emissions from Deforestation and Forest Degradation
RDD&D – Research, Development, Demonstration, and Diffusion
SDGs – Sustainable Development Goals
SDRM – Sovereign Debt Restructuring Mechanism
SDSN – Sustainable Development Solutions Network
SMEs – Small and Medium-Sized Enterprises
TOF – Total Official Financing
TOSD – Total Official support for Sustainable Development
UMICs – Upper-Middle-Income Countries
UN – United Nations
UNCTAD – United Nations Conference on Trade and Development
UNFCCC – United Nations Framework Convention on Climate Change
WTO – World Trade Organization

This Working Paper outlines key elements for a successful outcome document of the 2015 Financing for Development (FfD) Conference in Addis Ababa, Ethiopia. It builds on the 2002 Monterrey Consensus, the 2008 Doha Declaration on FfD, and the preparations for the post-2015 development agenda, including the outcome document of the Open Working Group on the Sustainable Development Goals and the 2014 Synthesis Report of the UN Secretary-General. Further, this document draws on recent reports on FfD including the Elements Paper submitted by the co-chairs of the FfD negotiations and reports by the Intergovernmental Committee of Experts on Sustainable Development Financing, the Sustainable Development Solutions Network (SDSN), the World Bank, the UN Secretary-General's High-level Advisory Group on Climate Change Financing, and many others. We refer to these documents and in particular the draft SDSN report[1] for the background and analysis behind the recommendations described in this document.

1 Introduction: Defining a Successful Outcome for Addis Ababa

A successful FfD conference will provide the means of implementation for the Sustainable Development Goals (SDGs) and the climate agreement to be reached at the 21st Conference of the Parties in Paris (COP21). The Addis Ababa Accord should build on the Monterrey and Doha FfD conferences to achieve four interrelated objectives. It should:

1. Align the principles of FfD with the new SDG agenda and adopt clear timelines for implementation. This includes *inter alia* extensions of the financing successes of the Millennium Development Goals (MDGs), such as in health; enhanced financing for environmental sustainability including climate finance; the increasing role of the private sector and capital markets in financing sustainable development, particularly for infrastructure; enhanced domestic resource mobilization; and the emergence of new provider countries and philanthropic donors.

2. Increase the volume and quality of private and public financing, including Domestic Budget Revenues (DBR)[2] and International Development Financing (IDF). Businesses and private investors will provide an important share of development finance, but concessional and non-concessional public funds are critical for unlocking private resources and for providing public goods. In our usage, IDF comprises Official Development Assistance (ODA), Other Official Flows (OOF) and Private Funds Mobilized (PFM) through ODA or OOF.[3] Purely commercial private financing complements official resources and IDF. The Addis Ababa Accord will need to specify modalities for tracking commitments and monitoring official and private financing.

3. Commit to effective pooled financing mechanisms to support the SDGs, including a Global Fund for Education (GFE) building on the Global Partnership for Education; a Global Fund for Health Systems (GFH) building on Gavi, the Vaccine Alliance, and the Global Fund to Fights AIDS, Tuberculosis and Malaria (GFATM); new Public-Private Partnerships (PPPs) for Sustainable Technologies; new initiatives to finance large-scale sustainable infrastructure; and a Global Fund for Smallholder Agriculture and Nutrition

[1] Available at http://unsdsn.org/resources/publications/financing-for-sustainable-development/.
[2] Defined as general government tax and non-tax revenues that pass through a government budget, excluding IDF and loans.
[3] In current usage, IDF does not include PFM, but we recommend including PFM in IDF, given the importance of PFM for the SDGs. As in other areas of this Working Paper, there will need to be global understanding and agreement on these revised technical definitions.

building on the International Fund for Agricultural Development (IFAD). To reduce fragmentation, several ineffective or small-scale programs and mechanisms should be terminated or merged.

4. Ensure that national and global rules for investment, finance, trade, and other "non-financial means of implementation" are consistent with the SDGs – particularly in support of resource mobilization and aligning private investments with the objectives of sustainable development. Some priority areas that should be highlighted in the Addis Ababa Accord include integrated business reporting on all dimensions of sustainable development, international tax cooperation and exchange of information, improved disclosure rules on beneficial ownership, and a reform of voting rights in international financial institutions to give more representation to developing countries.

Not every technical detail can be agreed in the Addis Ababa Accord, and implementing the commitments will take time. In particular, the tight fiscal situation in many high-income countries makes significant short-term increases in public financing difficult. For these reasons, the Addis Ababa Accord should highlight clear timelines, shared responsibilities, and modalities for review of commitments and reporting on progress.

2 Summary of Principal Recommendations

Below we summarize 11 principal recommendations for a successful outcome in Addis Ababa. These recommendations do not aim to cover the entire FfD agenda, but focus on some of the most important transformative elements.

Table 1: Summary of 11 principal recommendations

1	Agree on indicative financing needs to achieve the SDGs, detailing the categories of private finance, Domestic Budget Revenues, and International Development Finance.
2	Adopt clear standards for Domestic Budget Revenues: 18 percent of Gross National Income (GNI) in Least Developed Countries (LDCs), 20 percent in other low-income countries (LICs), 22 percent in lower-middle-income countries (LMICs), 24 percent in upper-middle-income countries (UMICs), and at least 24 percent in high-income countries (HICs).
3	All high-income countries should commit 0.7 percent of GNI in ODA and disburse at least 0.15-0.20 percent of GNI to LDCs. Upper-middle-income countries should commit to 0.1 percent of GNI in ODA.
4	All International Development Finance, including ODA, OOF, and PFM, should be subject to rigorous and transparent reporting through a Multilateral Development Finance Committee (MDFC) that builds on but goes beyond existing mechanisms, such as the OECD Development Assistance Committee (OECD-DAC) and the International Aid Transparency Initiative (IATI).
5	Commit to providing at least $100 billion per year in climate finance from developed countries by 2020, roughly mobilized as 1/3 ODA for climate (ODA-C), 1/3 OOF-C, and 1/3 in PFM-C through ODA-C and OOF-C.
6	ODA-C should be integrated with development financing, but is additional and not included in the 0.7 percent ODA target. As such, ODA-C should be mobilized through new sources, such as an assessed contribution of some $2 per ton of carbon dioxide emissions by each developed country, Financial Transaction Taxes, or levies on international maritime transport and aviation.
7	Encourage individual holders of large wealth to sign the Giving Pledge and donate a significant share of their net worth to the SDGs, particularly through specialized SDG global funds.
8	Agree that the global SDG funds should provide roughly half of all multilateral ODA in the respective sector.
9	Reform global financial regulations to end tax and secrecy havens; reveal the beneficial ownership of companies engaged in cross-border activities; curb abusive tax shifting through an expanded Base Erosion and Profit Shifting (BEPS) framework that better addresses the needs of developing countries; and require transparent financial and integrated reporting by companies.
10	Make national and international governance, rules, and standards consistent with the objective of achieving the SDGs (including for trade, intellectual property rights, banking and insurance regulation, and business accounting) and mandate periodic public coherence checks.
11	Ensure effective follow-through and accountability on FfD commitments in all major international fora, including the G7/8 and G20, the United Nations, the meetings of the MDBs, and major business groups.

3 Aligning Finance with Sustainable Development

Sustainable Development requires investments across six complementary forms of capital: infrastructure, human capital, natural capital, business capital, intellectual capital (scientific and technological know-how), and social capital. Each of the six types of capital requires investments by the public sector, the private sector, and the social (not-for-profit) sector, comprising foundations, academia, and social enterprises. In parallel, subsidies that are inconsistent with the objectives of sustainable development need to be phased out.

FfD needs to distinguish between two related concepts: the organizational entity leading a particular investment and the source(s) of financing. When the lead investor is a public entity (a government or a public agency) one speaks of a "public investment." Alternatively, when the investor is a private company one speaks of a "private investment." When the main source of financing is the public budget, perhaps augmented by aid flows from abroad, one speaks of "public financing."[4] When the financing is from private sources such as loans or bond sales, one speaks of "private financing." Many projects and programs involve a mix of public, private, and social investors, and of public and private sources of financing. As a result, the project design often entails a formal partnership of the public and private sectors, or a Public Private Partnership (PPP).

The private sector is the main investor and financier of business capital and makes critical contributions towards other types of capital. The other types of capital typically require a mix of public and private investments, with both public and private financing (Table 2).

Table 2: Main Sources of Investment and Financing by Type of Capital

Type of Capital	Main Type of Investor	Main Types of Financing
Infrastructure	Mix of public and private investment	A mix of DBR, IDF, and private financing
Human Capital	Mainly public investment in health and education, with some private investment	Mainly DBR, augmented by IDF, and philanthropic support
Natural Capital	Mainly public investments in environmental protection	Mainly DBR augmented by IDF, philanthropic funds, and private financing
Business Capital	Mainly private investors	Mainly private financing, except in the case of smallholder agriculture, where public financing tends to play a major role
Intellectual Capital	Mix of public and private investors	Mix of DBR, IDF, and private financing
Social Capital	Public regulations and Corporate Social Responsibility (CSR)	DBR to support good governance and inclusive policies; private capital to support private sector CSR; philanthropic funds to support NGOs

[4] Philanthropic and other not-for-profit finance is of growing importance. Though provided by private entities, it exhibits the characteristics of public finance.

3.1 Private-Sector Financing

There is enormous potential to tap businesses and capital markets for greatly expanded investments, particularly in energy, other infrastructure, and agriculture. Private financing entails various sources and mechanisms, including the following:

- Bank loans;
- Bonds, including green bonds, issued by governments or corporations in domestic and international capital markets;
- Private placements and direct, non-recourse project financing by specialized financial institutions, including insurance companies, pension funds, sovereign wealth funds, and other asset managers;
- Direct equity investments, including portfolio flows and Foreign Direct Investment (FDI).

Two challenges related to private-sector financing stand out. First, the volume and access to private sector funds for sustainable development must be increased significantly, especially for low-income countries. This will require changes to the regulatory environment of domestic and international financing, as described further below. Second, existing private-sector financing must be better aligned with the objectives of sustainable development. Regulatory and behavioral changes, including but not limited to integrated reporting for businesses, changes in the regulation of key industries, or the introduction of a price on greenhouse gas emissions and other externalities, must be considered in all countries to better align private investments with the social objective of sustainable development.

As noted earlier, some private sector financing will be mobilized through public guarantees such as export guarantees, political insurance cover, co-financing by official institutions, and so forth. A certain part of such financing will be classified as IDF under the rubric of PFM (Private Financing Mobilized by official flows). The rules for accounting for such PFM and including it within IDF will need to be agreed on during and elaborated following the Addis Ababa conference.[5]

3.2 Official Financing

Total Official Financing (TOF) is equal to Domestic Budget Revenues (DBR) directed towards the SDGs plus International Development Finance (IDF) from abroad, which also comprises official climate finance, as described further below. IDF in turn comprises Official Development Assistance (ODA), Other Official Flows (OOF) that are mainly non-concessional loans by Multilateral Development Banks (MDBs), and Private Funds Mobilized (PFM) by official financing, such as commercial bonds issued by developing country governments that are enhanced with developed-country guarantees. In arithmetic terms: TOF = DBR + ODA + OOF + PFM. Note that DBR is the product of two ratios: the share of government revenues in Gross Domestic Product (GDP) multiplied by the share of those revenues directed towards the SDGs.

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[5] The OECD-DAC has recently started work on developing methodologies for estimating such PFM. This work, though at an early stage, makes an important contribution to understanding and tracking private flows for sustainable development. It can help inform an Addis Ababa Accord.

As agreed in Monterrey, primary responsibility for financing development rests with national governments. All governments should make a good faith effort to raise sufficient overall domestic revenues, and then to allocate those revenues heavily towards the SDGs. The Addis Ababa Accord might adopt the following minimum DBR targets:

- For Least Developed Countries (LDCs): 18 percent of GNI
- For other low-income countries (LICs): 20 percent of GNI
- For lower-middle-income countries (LMICs): 22 percent of GNI
- For upper-middle-income countries (UMICs): 24 percent of GNI
- For high-income countries (HICs): at least 24 percent of GNI

Similar targets have been set for the share of government revenues directed towards certain development needs. The Abuja Target, for example, calls on developing countries to devote at least 15 percent of government revenues towards health outlays. There are proposals for similar standards in other areas, such as education and agriculture. In general, the Addis Ababa Accord should avoid competition between sectors and therefore focus on standards for the overall share of GNI directed towards the SDGs in the form of DBR.

Development finance should be mobilized in a transparent and predictable manner. In cases where the national economy is heavily concentrated in one or more primary commodities (e.g. hydrocarbons, minerals, metals), there may be a case to establish special commodity funds to help manage revenues from the key commodities. DBR should be deployed transparently and predictably, and against published plans and strategies to achieve the SDGs. This may include national multi-year development plans and investment programs. Since the SDGs describe a universal agenda, the same standards for transparency and monitoring DBR must apply to high-income countries.

Most developing countries, particularly the LDCs, will need to augment DBR with IDF, including official climate finance, in order to finance sufficient levels of public investment to achieve the SDGs. The quality of ODA and OOF needs to be improved in three ways. First, the volume of ODA needs to be increased, in line with preceding pledges and future needs. Second, ODA should be directed to countries that cannot finance the investments required by the SDGs out of their own resources. Each provider should strive to commit at least 50 percent of its ODA towards the LDCs by 2020. Multilateral development bank lending (the main category of OOF) should focus mainly on LICs and LMICs, with UMICs receiving mainly technical cooperation. Third, to reduce the high transaction costs and increase the efficacy and transparency of ODA, at least 50 percent of ODA should be provided through pooled multilateral channels by 2020, up from around 30 percent in 2014. OOF should continue to be provided essentially through the MDBs.

Currently no consensus exists on the specific levels of ODA, OOF, and PFM that will be needed for each type of capital investment. Good-quality needs assessments are available for health, and others are emerging for education, water and sanitation, smallholder agriculture, data and other areas, including infrastructure. Table 3 highlights the International Development Financing (IDF) needs for a few selected SDG sectors.[6] These are merely illustrative calculations at this

[6] For more detailed explanation see Annex 1 of the SDSN Financing for Sustainable Development background paper.

stage, and they will require further refinement to reach a consensus in Addis Ababa. The SDSN looks forward to working with lead agencies for each sector to refine available estimates.

The table shows that current shortfalls of ODA are equal to tens of billions of dollars per year. Note the table excludes large investments in infrastructure, agriculture, and other areas, which yield vastly higher shortfalls in OOF and PFM.

Table 3: Illustrative and incomplete IDF needs for selected sectors that require large shares of concessional finance (2013$ billion)

	Current ODA (2013)	ODA in 2020	OOF+PFM[7] in 2020	Total IDF in 2020
Infrastructure Capital				
Water and Sanitation for the Poor	10	35	5	40
Energy for the Poor	14	35	15	50
Human Capital				
Education	13	40	~0	40
Health	20	40	~0	40
Business Capital				
Smallholder Agriculture	15	30	~0	30
Social Capital				
SDG Monitoring	0.25	0.5	~0	0.5

Note: This table excludes the broader and predominantly private investment needs in infrastructure, agriculture, and other areas. See the SDSN background paper for more information.

In the follow-up to the Addis Ababa FfD conference, member states will need to continually update and improve needs assessments to arrive at a widely shared understanding of how the SDGs can be achieved. Such a process has been highly constructive for public health during the MDG period. Indeed, without such needs assessments it becomes impossible to determine whether available financing and other means of implementation are adequate to achieve the SDGs in a given sector or country.

3.3 Climate Investments and Financing

Climate financing is a relatively new category of development financing that will inevitably play a large role in the Addis Ababa Accord, the SDGs, and COP21. While all future investments in the six types of capital should be compatible with the stabilization of greenhouse gas concentrations (mitigation) and resilience to climate change (adaptation), certain investments will be singled out for accounting purposes as "climate investments," backed by "climate financing." Separate accounting for climate financing will be needed to assure developing countries that developed countries are indeed helping them to absorb the incremental costs of climate change mitigation and adaptation. Yet, such separate accounting must not lead to an artificial operational

[7] We do not have a baseline of OOF+PFM for 2013.

separation of climate and development finance, since both must be integrated and are in many cases operationally indistinguishable.

At least four types of climate investments have been identified in recent policy debates:

- Mitigation: Investments in low-carbon energy systems (e.g. wind, solar, geothermal, carbon capture and storage), reforestation to capture carbon dioxide (e.g. through the REDD+ mechanism), and projects devoted to energy efficiency (e.g. retrofitting of old buildings for insulation and air flow);

- Adaptation: Investments in natural capital (e.g. flood protection or ecosystem-based resilience), agricultural practices, and infrastructure, and human capital, that aim mainly to strengthen resilience to climate change;

- Research, Development, Demonstration and Diffusion (RDD&D): Investments in the advancement of early-stage low-carbon technologies and their widespread diffusion;

- Losses and Damages: Compensation to countries for losses and damages incurred in climate-related disasters such as droughts, floods, and tropical cyclones.

Developed countries have committed to ensuring at least $100 billion per year in climate financing for developing countries from 2020, but confusion reigns on what does and does not count towards this commitment. The Addis Ababa Accord should clarify that the $100 billion comprises International Development Financing (IDF) of various kinds (including ODA, OOF, and PFM). The commitment should exclude purely commercial private flows[8] and funds raised by national development banks for use in the same country. Developing countries will in fact need much more than $100 billion per year in climate financing, with the balance mobilized through DBR, additional IDF, and commercial private sector financing.

According to the outcome of the 2014 COP20 in Lima, it seems likely that the $100 billion for 2020 will be divided roughly 50-50 between mitigation and adaptation. This share seems appropriate, particularly given the substantial public finance needs for adaptation. RDD&D and Losses and Damages are not part of the $100 billion commitment and will likely require additional funding.

The Addis Ababa Accord also needs to clarify the meaning of "additional" climate finance. Developing countries have long insisted, and most developed countries have long acknowledged, that official climate financing should be *additional* to traditional development financing, because climate financing represents an added hurdle and expense for developing countries. For this reason a dollar of IDF should only be counted once as either climate finance or non-climate IDF. To distinguish the part of IDF devoted to climate financing, the notation ODA-C, OOF-C, and PFM-C could be used. The sum of these categories should reach $100 billion per year by 2020, and we propose that each category contribute an equal share (

[8] The distinction between purely commercial flows, such as foreign direct investment (FDI), and PFM is important since public finance should be directed towards leveraging a maximum volume of private resources.

Table 4). ODA-C cannot be counted towards the commitment to provide 0.7 percent in GNI as ODA.

Table 4: The public and private components of Official Climate Financing ($ billion)[9]

Climate Financing	Minimum Target 2020
Additional climate ODA (ODA-C)	33.3
Other Official Flows (OOF-C)	33.3
Private Funds Mobilized through public resources (PFM-C)	33.3
Official climate financing	100

The most important and convincing way to ensure additional climate financing is to develop new sources of climate financing beyond traditional official sources. A key source of climate financing, and of ODA-C in particular, should be the revenues raised by the governments of developed countries via carbon taxation and the sale or auction of carbon emission permits. If developed countries contributed $2 per ton of carbon dioxide emissions towards ODA-C – raised either through domestic carbon taxation or the sales of emissions permits – they would generate an additional $36 billion in ODA-C, which could in turn leverage OOF-C (mainly loans from multilateral development banks) and PFM-C (mainly private loans and bonds with official guarantees) to reach the full $100 billion in official climate finance effort as of 2020.

Recent sharp falls in the price of fossil fuels provide a unique opportunity for developed countries to scale back fossil-fuel subsidies and introduce carbon pricing in support of ODA-C. Other promising mechanisms for mobilizing public climate finance include domestic revenues collected on new Financial Transaction Taxes and levies on fossil fuel emissions resulting from international aviation and maritime transport.

A significant portion of the $100 billion, perhaps 20 percent, should flow through the new Green Climate Fund (GCF) and another 5-10 percent should flow through an expanded Global Environment Facility (GEF). The rest would flow mainly through MDBs and other development institutions that specialize in co-financing PPPs, particularly those engaged in the areas of infrastructure and the protection of natural capital (Table 5).

Table 5: Disbursement of Official Climate Finance today and by 2020 ($ billion)[10]

Some Specific Financing Mechanisms	Current disbursement	Indicative targets by 2020
Bilateral	24	25-30
Green Climate Fund	0	20
GEF	1	5-10
MDBs	13	36
Private Capital (PFM)	0-5	28
Total	38-43	At least 100

[9] We do not have robust estimates of current flows since there are many contentious issues of measurement and classification. For example, ODA that is currently counted as climate financing is rarely from a source that is additional to non-climate ODA and therefore should not count towards ODA-C, or at least not in full.

[10] Current disbursement data cited from: OECD Development Assistance Committee. Climate-related development finance in 2013: Improving the Statistical Picture.

4 Goal-based Partnerships for the SDGs

Global partnerships around the SDGs can help develop the strategies and mobilize the financing, technologies, and PPPs needed to meet the goals. The experience of the MDGs regarding such goal-oriented partnerships has been very positive, as demonstrated by the success in reducing child mortality and in fighting AIDS, tuberculosis, and malaria, and polio. However, goal-based partnerships for non-health MDG priorities have made considerably less progress.

Successful global partnerships are complex and require many different types of partners. From a financing perspective pooled global funds such as Gavi, the Vaccine Alliance, and the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM) have played an enormously positive role. They help to (i) reduce transaction costs and support scaled-up national strategies, (ii) provide a unified interface for mobilizing private financing, expertise and innovation, and (iii) build the understanding of how ambitious sector goals can be achieved and monitored. Global partnerships that lack effective pooled financing mechanisms have been unable to achieve progress similar to that achieved in health.

Since public and private investments and their financing differ markedly across the six types of capital, the Addis Ababa Accord needs to consider each category separately. Designs of goal-based global partnerships should also learn from innovative South-South cooperation.

4.1 Human Capital: Health and Education

Two overarching global funds are needed for human capital: a Global Fund for Health (GFH) and a Global Fund for Education (GFE). The GFH would combine existing mechanisms (Gavi, GFATM, Global Finance Facility, and others), and would comprise a financing window to strengthen health systems, so that horizontal approaches to health can be financed – *inter alia* to prevent and control crises like Ebola. The GFH would disburse a minimum of $15 billion per year as of 2020 compared with a combined total of $5.2 billion today for Gavi and the GFATM.

The Global Partnership for Education currently disburses some $0.8 billion in IDF. It should be scaled up by an order of magnitude and be transformed into the GFE combining large-scale, pooled resource mobilization with a delivery model like Gavi and the GFATM. The GFE would disburse a minimum of $15 billion per year as of 2020.

4.2 Infrastructure

Most new infrastructure will be financed by private flows, mobilized in part through public funds mediated by MDBs and national government agencies. This is especially true of large-scale infrastructure, like power grids, urban water and sewerage systems, highways, rail, airports, seaports, and information and communication technology (ICT) networks. These investments will amount to trillions of dollars in both developed and developing countries, far beyond any conceivable levels of public finance. Therefore, the private sector will have to play a vital role in financing, often as the lead investor. PPPs will also be critical throughout this sector.

Development banking, at the global, regional, national and sub-national levels, must be enhanced to facilitate the blending of official and private capital. In particular, project preparation and the appropriate channeling of public and private resources to infrastructure must be scaled

up. Dedicated and innovative institutions for infrastructure finance can mobilize a combination of skills beyond the means of traditional public or private institutions, including investment analysis, public policy, financial mobilization, and public-private coordination. In recent years promising new institutions have been created for infrastructure finance, such as the new UK Green Investment Bank, and the Danish Climate Investment Fund, just to name two notable examples that complement established institutions like the KfW of Germany.

Green bonds may be helpful as well, though the definition and regulation of green bonds is still inchoate and unsatisfactory. What qualifies as a green bond? What advantages – tax, regulatory, reputational or other – should adhere to green bonds? Who will judge what is and what is not a green bond? These issues require urgent clarification and transparent global standards.

The financing issues for ensuring that every poor person has access to basic services (including safe water, sanitation and electricity) are somewhat distinct. Such investments rely on small-scale systems that are less amenable to project finance or other infrastructure financing modalities. They also involve technologies – such as off-grid or micro-grid power supply – that are different from large-scale infrastructure models. And, finally, the poor are often unable to finance the capital required and full operating expenditures, so revenue models are different.

Both ODA for LICs and OOF for LMICs will have to play a significant role in financing basic infrastructure for the poor. The Addis Ababa Accord should call for the establishment of a Global Fund for Water and Sanitation, and a Global Fund for Sustainable Energy for All, specifically devoted to expanding the access to water, sanitation, and sustainable energy for the extreme poor. Each would replace a large number of small and undercapitalized mechanisms, thereby reducing transaction costs while scaling up investments in these sectors.

Enhancing regional infrastructure project planning, development, financing and execution is vital, given the cross-border nature of much of the global infrastructure needs. The Programme on Infrastructure Development in Africa (PIDA), and other such regional initiatives in Latin America and Asia, should be supported with additional financing in Addis Ababa. A special section on African infrastructure planning should be considered for the Addis Ababa Accord given the great needs and potential of infrastructure development in the region.

The needed level and direction of global savings flows from institutional investors (pension funds, insurance funds and sovereign wealth funds) towards infrastructure investments should be articulated in the Addis Ababa Accord. Key lessons from the pension systems of Canada and Australia, which have mobilized 5-10 times the amount of pension savings towards infrastructure than other high-income OECD countries, should be studied.

4.3 Business Capital

There is one significant area of business where public financing tends to play an important role: smallholder agriculture. With hundreds of millions of poor people working as smallholder farm households, poverty reduction in this sector requires significant public financing to enable smallholders to escape from subsistence and to join the commercial economy. Public financing of smallholder agriculture should be directed towards all three dimensions of sustainable farming: economic improvement and the reduction of hunger, social inclusion (e.g. of women farmers), and environmental sustainability. We recommend a significant expansion of the International Fund for Agricultural Development (IFAD) to become the world's Global Fund for

Smallholder Agriculture and Nutrition.[11] An expanded IFAD should work closely with other financing mechanisms, including the Global Agriculture and Food Security Program (GAFSP). It will also be a core mechanism for leveraging private financing for value chains involving smallholder farmers. This global fund should aim to disburse some $10 billion per year by 2020 compared with $0.5 billion today for IFAD.

All countries should improve the investment climate to attract long-term business investments compatible with sustainable investment. Business investments should respect economic, social, and environmental objectives of the SDGs, and businesses should report not only on economic flows but also on social and environmental impacts. Countries should take special care to promote small and medium enterprises (SMEs), as they are key to job creation, entrepreneurship, and the creation of upstream and downstream linkages with the investments by large enterprises.

In summary, specific commitments to be considered in the Addis Ababa Accord include:

- Ensuring that prudential standards (e.g. Basel III for banks and Solvency II for insurance companies) do not unnecessarily impede investments in long-term sustainable infrastructure.

- Fostering a new Infrastructure Asset Class (IAC) to encourage a significant increase in long-term private funding for infrastructure by pension funds, insurance funds, sovereign wealth funds, and other institutional investors. The IAC will be fostered through standardization of financial instruments, disclosure rules, new risk management tools, and other mechanisms. Specifically, efforts to support the creation of a liquid, global project bond market should be outlined in Addis Ababa to mobilize private savings into infrastructure at scale.

- Defining with precision the new asset class of green bonds, based on newly agreed standards supported by the international financial institutions, credit rating agencies and the corporate sector.

- Proper pricing of greenhouse gas emissions and ecosystem services to remove market failures.

- Requiring disclosure of climate risks, including financial risks from future carbon pricing and regulation of greenhouse gas emissions, in all corporate reporting, in order to move private capital towards climate-resilient technologies and projects.

- Developing domestic bond markets in developing countries, including markets for municipal bonds, to enable and encourage local financing of infrastructure.

- Developing domestic equity markets to enable companies, including SMEs, to raise equity capital.

[11] Such a mechanism would promote agriculture-related nutrition interventions, including food fortification and planting diverse crops by smallholder farmers. Other critical nutrition interventions, such as micronutrient supplementation, are delivered through the health system and should therefore be financed through a Global Fund for Health. The Scaling-Up Nutrition (SUN) Movement can play an important role in promoting the coordination of integrated nutrition interventions at all levels.

- Developing stable, well-capitalized domestic banking sectors to support SME and infrastructure lending.
- Encouraging the inflow of FDI subject to adequate global and domestic regulatory and disclosure regulations, to ensure that foreign investors operate within the framework of sustainable development.
- Supporting the scaling-up of infrastructure projects through early-stage support of project development, including through new Infrastructure Project Preparation Facilities (IPPFs) at the MDBs, and general analytical support by the MDBs and other institutions (G20).

4.4 Natural Capital including Ecosystems and Biodiversity

All countries should undertake public and private investments to protect natural capital, such as ecosystem functions, freshwater resources, forests, habitat, marine environments, biodiversity, and climate resilience. The Global Environment Facility (GEF) and Green Climate Fund (GCF) need to be adequately capitalized to help ensure that countries have the official funding necessary for these investments.

Investments in threatened ecosystem services are woefully inadequate. To preserve vital global public goods and the underpinnings of many economies, the GEF must be strengthened and expanded from some $1 billion today to perhaps $6 billion by 2020. The enhanced GEF should provide program funding at scale to support countries in sustainably managing ecosystems and preserving biodiversity. An important focus of the GEF will be to support biomes of global significance and other global public goods. Strengthening the GEF must go hand in hand with improved metrics and improved private value chain initiatives.

4.5 Intellectual Capital: Technologies for sustainable development

Sustainable development will require the development and rapid uptake of new technologies that allow for economic growth while reducing the human-induced pressures on the Earth's ecosystems, biodiversity, and climate. The ongoing revolutions in ICT, genomics, energy, materials science, and other areas can support "smarter" systems for industry, transport, water, land use, waste management, health, and education. FfD must therefore also support the Research, Development, Demonstration, and Diffusion (RDD&D) of new, sustainable technologies.

In order to achieve the SDGs, technological advances will be required in several areas: low-carbon energy; energy efficiency in buildings, transport, and industry; climate-resilient agriculture; and low-cost, high-quality health and education services relying heavily on new ICTs. To spur the needed technological advances, governments should take the lead in organizing new Public-Private Partnerships for Sustainable Technologies, with PPPs established in each of the priority areas. In energy, for example, PPPs should be established to test the feasibility of large-scale carbon capture and storage (CCS), storage of intermittent renewable energy, and deployment of "smart grids" in urban economies. In agriculture, PPPs should be established to improve farm systems, economize on water and fertilizer use, and improve crop resilience to climate changes. In health and education, special attention should be devoted to the application of ICTs for expanding the delivery of high-quality health and education services in low-income settings.

4.6 Social Capital including Data and SDG Monitoring

Social capital, signifying high societal trust, requires honesty and the rule of law in the actions of government as well as in business operations. Therefore, investing in social capital means investing in transparency, inclusive policies, and stakeholder participation in investment decision-making. Governments and businesses should report on their financial flows and contracts, and on their performance vis-à-vis the SDGs. New forms of corporate accounting should help businesses to "internalize" the environmental and social externalities of their actions.

Effective monitoring of the SDGs will require modest financial resources relative to other areas, but effective investments in monitoring and data systems underpin progress in all other areas. The SDSN, in collaboration with other partner organizations, estimates that developing countries will need to spend about $1 billion globally on monitoring and data systems, including underlying systems and frameworks such as national census rounds and civil and vital registrations.[12] This corresponds roughly to a doubling of current annual expenditure, of which about half is currently provided in the form of ODA. In other words, ODA for data systems needs to rise from some $250 million to about $500 million per year. As with other SDG investment priorities, a central question is how resources can be pooled and disbursed most effectively – possibly through a multilateral trust fund with an appropriately diverse governance structure. Given the relatively modest volumes of funding involved and the tremendous payoff that will be generated from effective data systems, these investments are a particularly low hanging fruit for Addis Ababa.

4.7 The Important Role of IDA

The World Bank Group's International Development Association (IDA) provides critical, flexible, large-scale financing for LICs and a few MICs. In this way IDA supports general development financing and complements thematic Global Funds that are needed for core SDG priorities. IDA currently disburses some $18 billion per year and needs to be strengthened further under a post-2015 development finance framework.

4.8 Summary of Pooled Funding Recommendations

Table 6 provides a summary of the recommended pooled funding mechanisms and the minimum target disbursements for each fund in the year 2020.

[12] http://unsdsn.org/what-we-do/monitoring-the-sdgs/

Table 6: Indicative resource needs for pooled funding mechanisms for the SDGs ($ billion)

Sector	Current Annual Funding	Minimum Target 2020
Global Fund for Health	Gavi = 1.3 GFATM = 3.9	15
Global Fund for Education	GPE = 0.8	15
Global Fund for Smallholder Agriculture and Nutrition	IFAD = 0.5	10
Global Environment Facility	1	6
Green Climate Fund	Start up	20
Mechanism for funding SDG Monitoring & data revolution	Not yet established	0.5
Global Fund for Sustainable Energy for All	Not yet established	To be identified
Global Fund for Water and Sanitation	Not yet established	To be identified
International Development Association (IDA)	18	To be identified

5 Mobilizing and Monitoring New International Development Finance for the SDGs

The case for ODA remains urgent, as does the case for expanded lending by the Multilateral Development Banks. Many developing countries, especially LDCs, lack the domestic revenues to meet their SDG public investment needs out of domestic resources and to mobilize adequate private financing. Therefore, these countries rely on both ODA and OOF to close financing gaps, and explicit targets are required for both types of flows.

5.1 Official Development Assistance

The international target of ODA equaling at least 0.7 percent of GNI remains valid in the SDG period. This is true even for non-climate financing (i.e. traditional areas of development financing such as health, education, and infrastructure). ODA-C should be in addition to the 0.7 percent of GNI target and there should be no double counting of ODA and ODA-C.[13]

As a matter of political reality many HICs will not meet their ODA target. Of the 29 current DAC members, for example, only five meet the 0.7 percent target (Denmark, Luxembourg, Norway, Sweden, and the United Kingdom) with a sixth country (Netherlands) a traditional member of this group and still close, though now below 0.7. In spite of the fiscal challenges in many HICs, moral suasion should be used to urge all HICs to meet the 0.7 percent target. All HICs below the target should announce clear, multi-year commitments and timelines to raise their ODA towards the 0.7 percent target. Countries that have not yet achieved the 0.7 target should commit to at least halve the gap by 2020.

[13] As explained above, ODA-C should account for about a third of the $100 billion committed in climate finance.

High-income countries (HICs) that are not part of the OECDDAC should also agree to abide by the 0.7 percent of GNI target. UMICs should agree to a new global target for concessional public finance equal to at least 0.1 percent of GNI as of 2020.

Table 7 illustrates the minimum acceptable levels of ODA and other international concessional public finance for the SDGs for the year 2020.

Table 7: Illustrative ODA and public concessional finance targets for 2020 (in 2013 $ billion)

By Provider	Current flows	Development finance target (minimum)	ODA-C Target	Combined Total
OECD-DAC members	$115	$266	$30	$296
Non-DAC HICs	$7	$22	$3	$25
Non-DAC UMICs	$8	$24	$0	$24
Total	$130	$312	$33	$345

ODA and international concessional public finance are without doubt key tools to achieve international security. As such, members of the UN Security Council have a special obligation to provide adequate volumes of development finance, as they are recognized globally as pillars of international security with special rights and responsibilities vis-à-vis the international community.

Innovative financing mechanisms provide an important additional source for ODA. The Addis Ababa Accord should resolve to mobilize at least $50 billion through Financial Transaction Taxes and other innovative financing mechanisms by 2020.

The quality and targeting of ODA should be improved in four straightforward ways. First, every provider country should publish its own transparent accounts of ODA following internationally agreed standards, including five-year projections of future ODA flows.

Second, more ODA should be allocated multilaterally, in order to reduce high transactions costs. Currently, around 70 percent of ODA is bilateral. This should be reduced to 50 percent by 2020. At least 50 percent of multilateral ODA should flow through specialized sector funds such as the GCF, GEF, the proposed GFH or GFE (Table 6), and the other half through the ODA windows of the MDBs, such as IDA, and other international organizations.

Third, ODA eligibility should be restricted to countries that cannot mobilize adequate resources domestically to finance the needed public investments in the SDG. A particular focus needs to be placed on the poorest countries, so at least 0.15-0.20 percent of GNI should go as ODA towards the LDCs. Many of today's middle-income countries should graduate from ODA by 2020, though they should of course remain eligible for OOF such as MDB loans. IDA eligibility provides a useful short-hand criterion for ODA eligibility, as it considers countries' income levels and special needs, such as small-island status. Over time the Multilateral Development Finance Committed (MDFC) described further below should propose eligibility criteria for ODA that are independent from the lending standards of the World Bank or any other MDB.

Fourth, the globally agreed accounting for ODA has been considerably strengthened by the 2014 High-Level Meeting of the DAC, but it should be revised further to include only SDG-related financing that directly benefits developing countries. For example, flows for military and security-related expenditures, imputed costs for refugees and students in donor countries, and other distortions should be removed. Total Official support for Sustainable Development (TOSD) is a welcome additional measure for tracking development finance that complements ODA.

5.2 Private Philanthropy

An important complement to ODA is private philanthropic giving, much of which is passed through NGOs. Substantial scope exists to increase private philanthropy for the SDGs from both developed and developing countries. The world's 1,826 billionaires have an estimated net worth of $7.05 trillion. If billionaires accounting for half of this net worth sign the Giving Pledge to donate at least 50 percent of their net worth to philanthropic causes, the combined contributions would total $1.76 trillion. If half of that sum is then directed towards SDG related purposes, the capital contribution would be $880 billion. With an annual payout rate of 5 percent these philanthropists would support $44 billion per year in SDG activities or roughly one third of today's ODA volumes.

Before Addis Ababa, a concerted attempt should be made to mobilize large-scale private philanthropy directed towards the major global pooled funds, such as the proposed Global Fund for Education, and other key contributors to the goal-based partnerships. With one or more major private-sector philanthropists behind each of these funds, there is much greater chance of success, and much more chance to spur donations by governments, private companies, and other philanthropists. Governments should also commit to creating legal environments that encourage the build-up of philanthropic cultures in developed and developing countries alike.

5.3 Other Official Flows

OOFs have become an essential component of international development finance, but current flows are insufficient – particularly given the increasing focus on infrastructure funding. The Addis Ababa Accord should consider a quantitative target for mobilizing OOF through the MDBs and bilateral financial institutions. The precise value and composition for an OOF target should be explored in preparation for the Addis Ababa Conference.

5.4 Monitoring International Development Finance

Addis Ababa should adopt a strengthened and expanded monitoring and reporting architecture for IDF, including OECD and non-OECD countries. A new Multilateral Development Finance Committee (MDFC) should ensure annual monitoring by providers and recipients of IDF, including ODA, OOF, and PFM. It will also provide periodic needs assessments of overall IDF needs compatible with achieving the SDGs. The MDFC should build on existing reporting initiatives, including the OECD-DAC and the International Aid Transparency Initiative (IATI). Its governance must give full voice to all non-OECD countries, key multilateral institutions (including the International Monetary Fund (IMF), World Bank, OECD, other MDBs, and UN Conference on Trade and Development (UNCTAD)), and civil society organizations. Broad-based participation and governance will be key to the success of such an initiative.

6 Reforming International Governance and Mobilizing Non-financial Means of Implementation in Support of Sustainable Development

Global financial governance must be reformed and strengthened to support financing for the SDGs. At Addis Ababa all member states should resolve to:

- End tax and secrecy havens internationally;
- Adopt and apply effective rules to reveal the beneficial ownership of companies that engage in cross-border activities;
- Reform international tax rules and enhance information exchange to curb abusive tax shifting, including by strengthening the BEPS framework and by ensuring that it better reflects the needs of developing countries;
- Require transparent financial reporting by companies, particularly in the natural resource sectors.

In addition to increasing investments to achieve the SDGs, multilateral and national regulations should steer financing away from investments that are environmentally unsustainable and inconsistent with achieving the SDGs. Such regulatory reforms include carbon pricing and the phase-out of fossil-fuel subsidies in order to curb greenhouse gas emissions.

The governance of International Financial Institutions, including the World Bank and the IMF, must be reformed to better reflect today's world. In particular voting rights should reflect the distribution of population and GDP.

International rules and standards, including for trade, intellectual property rights, banking and insurance regulation, or accounting standards, must be made consistent with the objective of achieving the SDGs. Greater consistency can be achieved through "coherence checks" that determine whether existing rules are consistent with achieving all the SDGs and – if not – how they might need to be amended. Every major rule-setting mechanism and institution should produce a regular report on whether the rules are consistent with achieving all SDGs and which inconsistencies might need to be addressed. Such reports will be made public and discussed in the supervisory body of the mechanism or institution.

The Addis Ababa Conference should announce an effective Sovereign Debt Restructuring Mechanism (SDRM) to provide a work-out process for sovereign debt crises. This process has not been created despite many significant efforts by the IMF and leading international financial figures. The SDRM must take into account the new realities and outlook of sovereign debt including: i) increasing levels of sovereign debt globally and more countries having access to international capital markets, ii) increased level of private sector involvement in sovereign debt ownership and iii) changing imperatives for sovereign borrowing for SDG financing. The SDRM should be led by the IMF.

7 Accountability, Follow-Through, and Implementation

The Addis Ababa Accord should include mechanisms to monitor its implementation, particularly with regards to the scale, direction, and adequacy of SDG financing:

- Each major standard-setting organization, including but not limited to the World Trade Organization (WTO), IMF, Bank for International Settlements (BIS), International Accounting Standards Board, etc. should track progress in aligning international rules with the SDGs, including through publicly available “coherence checks.”

- Specialized UN organizations and the World Bank should conduct periodic needs assessments for key SDG investment priorities to estimate the scale of public and private financing that is required to achieve the SDGs. These estimated needs should be compared annually with respect to the quality and scale of domestic and international financing from public and private sources in the respective area.

- The Multilateral Development Finance Committee (MDFC) described above will track all aspects of international SDG financing and compare them against available needs assessments. Suggestions for improving the performance of targeted financing mechanisms, such as the GCF, GEF, and others should be published periodically and be subject to public consultations.

- Every meeting of the G20 and G7/8 should review annual reports on FfD implementation and assess to what extent its members are following through on their commitments.

- Business groups, such as the Global Compact, the Global Reporting Initiative, and the World Business Council for Sustainable Development should report periodically on how businesses report on the SDGs.