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Financing for Development

From Monterrey to Seville

Stephan Klingebiel, Jorge A. Pérez-Pineda & Kathrin Berensmann (Eds.)

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Financing for development

From Monterrey to Seville

Edited by Stephan Klingebiel, Jorge A. Pérez-Pineda & Kathrin Berensmann

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Abbreviations

AAAA	Addis Ababa Action Agenda
ADB	Asian Development Bank
AECID	Spanish Agency for International Development Cooperation / Agencia Española de Cooperación Internacional para el Desarrollo
AfDB	African Development Bank
AIIB	Asian Infrastructure Investment Bank
AMR	anti-microbial resistance
BAPA+40	Buenos Aires Plan of Action
BI	Bridgetown Initiative
BRI	Belt and Road Initiative
BRICS	Brazil, Russia, India, China, South Africa
CIDCA	China International Development Cooperation Agency
CIDA	Canadian International Development Agency
COP	Conference of the Parties
CSO	civil society organisation
DAC	Development Assistance Committee
DBSA	Development Bank of Southern Africa
DCF	Development Cooperation Forum
DESA	Department of Economic and Social Affairs
DFID	Department for International Development
ECOSOC	United Nations Economic and Social Council
ESG	environmental, social, governance
EU	European Union
FCAS	fragile and conflict-affected states
FfD	financing for development
FfD3	Third International Conference on Financing for Development
FfD4	Fourth International Conference on Financing for Development
FRLD	Fund for Responding to Loss and Damage
G20	Group of 20 countries
G7	Group of 7 countries
G77	Group of 77 countries
GCF	Green Climate Fund
GCMT	Global Climate Mitigation Trust
GDI	Global Development Initiative
GDP	gross domestic product
GIZ	German Agency for International Cooperation / Deutsche Gesellschaft für Internationale Zusammenarbeit
GNI	gross national income

GPEDC	Global Partnership for Effective Development Co-operation
GPG	global public good
GPI	Global Public Investment
HIC	high-income country
HIPC	heavily indebted poor countries
HIV	human immunodeficiency virus
IBRD	International Bank for Reconstruction and Development
ICMA	International Capital Markets Association
IDA	International Development Association
IDB	Inter-American Development Bank
IDOS	German Institute of Development and Sustainability
IDRC-CRDI	International Development Research Centre / Le Centre de recherches pour le développement international
IEA	International Energy Agency
IEG	Independent Expert Group
IFI	international financial institution
IFT	International Forum on TOSSD
ILO	International Labour Organization
IMF	International Monetary Fund
IsDB	Islamic Development Bank
ISO	International Organization for Standardization
ITC	International Trade Center
JICA	Japan International Cooperation Agency
LDC	least developed country
LIC	low-income country
MC	Monterrey Consensus
MDB	multilateral development bank
MDG	Millennium Development Goal
MIC	middle-income country
MW	megawatts
NCQG	new collective quantified goal
NDB	New Development Bank
NGO	non-governmental organisation
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
OOF	other official finance
PHC	primary health care
PS	private sector
PSE	private-sector engagement
REIPPPP	Renewable Energy Independent Power Producer Procurement Programme

SDG	Sustainable Development Goal
SDR	special drawing right
SIDS	Small Island Developing States
SSC	South-South Cooperation
TOSSD	Total Official Support for Sustainable Development
TriCo	Triangular Cooperation
UAM	Anáhuac University Mexico / Universidad Anáhuac México
UMIC	upper-middle-income country
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNE	Universidad Nebrija
UNECA	United Nations Economic Commission for Africa
UNFCCC	United Nations Framework Convention on Climate Change
UNFSS	United Nations Forum on Sustainability Standards
UNIATF	United Nations Inter-Agency Task Force
UNIDO	United Nations Industrial Development Organization
UNOSSC	United Nations Office for South-South Cooperation
USAID	United States Agency for International Development
WB	World Bank
WBCSD	World Business Council for Sustainable Development

Foreword 1: Financing for Development Agenda as a transformative force

Karen de Brouwer Vásquez

The Financing for Development Agenda has emerged as a transformative force in our collective pursuit of equity, sustainability and shared prosperity. From its inception in Monterrey in 2002 – when an ambitious multilateral compact first took shape – to the upcoming Fourth International Conference on Financing for Development (FfD4) in Seville in 2025, this agenda reflects the evolving complexity and urgency of our shared responsibility. Each milestone has been both a mirror and a catalyst: reflecting the prevailing state of international cooperation while igniting new innovations in development finance.

Two decades since Monterrey, the world has experienced seismic shifts in its economic and social landscape. The global financial crisis of 2008 tested the resilience of nations and institutions, the COVID-19 pandemic laid bare systemic vulnerabilities and deepened inequalities, and escalating climate impacts have underscored our collective fragility. Meanwhile, geopolitical frictions and market volatility have further complicated our path. These events have influenced progress on the 2030 Agenda for Sustainable Development, for which persistent gaps in financing and cooperation threaten to derail the achievements of the Sustainable Development Goals. Mobilising this agenda is therefore not just a matter of aspiration but of global necessity – one that calls for bold action and inclusive partnerships.

Seville presents a critical juncture. As we near the midpoint of the 2030 Agenda, it is a moment to bridge ambition and pragmatism, to address the structural inequalities that continue to hold us back, and to recalibrate financial mechanisms to meet the needs of people and the planet. In this context, tackling issues such as climate adaptation, debt sustainability and poverty eradication becomes even more urgent.

Mexico is deeply honoured to co-facilitate FfD4 alongside Nepal, Norway and Zambia, underscoring our steadfast dedication to this transformative agenda. From its pioneering role in Monterrey to its enduring advocacy for inclusive, innovative and sustainable financing solutions, Mexico's commitment to bridging divides and fostering resilience has remained unwavering. Our role as co-facilitator in Seville is a natural extension of this legacy, allowing us to align financial mechanisms with the aspirations of people and planet. It also represents a unique opportunity to deepen global collaboration at a time when the financing needs of developing nations are more urgent than ever.

This publication is thus both timely and relevant, capturing the intellectual momentum driving this agenda. With its meticulously curated analyses, it offers both retrospection and foresight – lessons from Monterrey, Doha and Addis Ababa serve as a foundation for understanding where we have succeeded, where we have faltered and where innovation is required. Its contributors bring perspectives from across the globe, reflecting the diversity and interconnectedness that define this agenda. They explore themes ranging from emerging powers and South-South Cooperation to the transformation of multilateral banks and private-sector engagement, offering candid insights into the interplay between global ambitions and local realities. While candidly addressing challenges – especially systemic inequities and the urgency of climate action – this volume also highlights avenues for fresh thinking and collaborative problem-solving.

At the heart of these discussions lies a critical question: **How can financing for development become not just a means but a driver for systemic change?** The contributors to this volume do not shy away from the complexities, presenting nuanced and evidence-based arguments that will undoubtedly inform the deliberations in Seville. Their insights remind us that development

finance must transcend traditional boundaries, align financial systems with sustainability goals and foster inclusive solutions in an increasingly fragmented world.

Mexico approaches this pivotal conference with profound commitment. As the original host and facilitator of the financing for development process, Mexico remains steadfast in its dedication to advancing solutions that bridge divides and build resilience. Our nation's experience demonstrates the value of inclusive multilateralism, the potential of regional leadership and the necessity of innovative partnerships. From championing South-South Cooperation to integrating gender perspectives into development policies, Mexico continues to advocate for financing frameworks that are as equitable as they are effective. In Seville, we reaffirm this legacy by working closely with partners worldwide to strengthen global collaboration and address the urgent financing needs of developing nations, ensuring that no one is left behind on the path towards sustainable development.

As readers delve into this publication, they will find not only a record of past achievements and challenges but also a roadmap for what lies ahead. It is a testament to the intellectual and practical rigour that defines this agenda as a source of inspiration for policymakers, practitioners and scholars alike. The insights herein are a call to action – urging us to move beyond rhetoric and towards tangible, sustainable outcomes.

May the pages that follow serve as both a resource and a catalyst, sparking the ideas and collaborations necessary to meet the challenges of our time. Together, through dialogue and determination, we can ensure that Seville becomes a milestone in our shared journey towards a more just and sustainable world.

Foreword 2: The Monterrey Consensus, the FfD process and the contributions of Mexico

Noel González Segura

Abstract

The 2002 Monterrey Consensus (MC) marked a pivotal moment in development financing, offering a holistic framework to address global economic and financial challenges. Subsequent reviews in Doha (2008) and Addis Ababa (2015) expanded the agenda, integrating contemporary challenges such as climate change financing and the Sustainable Development Goals (SDGs).

The objective of this contribution is to review the evolution of the FfD process since the 2002 MC and Mexico's role in shaping and advancing the FfD agenda – as "guardian of the spirit of Monterrey" – through diplomatic leadership promoting inclusive dialogue.

It also addresses the critical opportunities of the upcoming 2025 Seville Review Conference, as the world faces heightened economic and geopolitical challenges: to address financing gaps, enhance the global financial architecture and rebuild trust in multilateralism. The conference must galvanise political will, technical expertise and a collective commitment to leaving no one behind, reaffirming development financing as a cornerstone of global peace and prosperity.

1 From Monterrey to Seville: How has the FfD process evolved in the last two decades?

The MC (UN, 2002) was the response from the international community to the development, financial and economic crises that emerged in the late 1990s and early 2000s and were the consequence of the international financial system established after the Second World War. At the outset, the central questions were: "What actions can be undertaken by developing countries to mobilise resources for development, including economic and financial stability, and what should the international community do to support these efforts in an effective and meaningful manner?"

The answer of the MC – one of the more solid and coherent Outcome documents of any international conference – builds on the recommendations of the High-Level international intergovernmental Panel on financing for development ("Zedillo Report") (UN, 2001) and comprises six broad chapters: domestic and international resources for development; foreign direct investment and other private flows; international trade as an engine for development; increasing international financial and technical cooperation for development; external debt; and systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

The Monterrey Agenda was groundbreaking because, for the first time, the issues pertaining to global financial governance moved from the exclusive realm of the international financial institutions (IFIs) in Washington, DC, to the United Nations (UN) in New York. The intention was to encompass a holistic perspective that comprises in the same equation all sources of development financing; advocating coherence and positive synergies to ensure that developing countries have sufficient policy space to promote development; putting them in the "driver's seat", in a context that is conducive for achieving their own economic, social and environmental objectives.

The MC established a unique and innovative approach by gathering, for the first time, a broad range of stakeholders – including governments, international organisations, IFIs, NGOs and the private sector – to approach development financing from a comprehensive, "holistic" perspective, considering all forms of development finance. Through this groundbreaking stance, known as "the spirit of Monterrey", from its outset the FfD process has been a key driver for coordination and an important platform for exchanges on and advocacy for the mobilisation of sustainable development financing.

The Second International Conference on FfD took place from 29 November to 2 December 2008, in the context of the subprime mortgage crisis, which caused the most severe economic depression since the 1920s. The conference reaffirmed the MC "in its entirety, in its integrity and holistic approach" (UN, 2008). It renewed the commitment of all participants and stakeholders towards the topics encompassed in the MC, most notably the need to address inequality through a substantial increase of public and private financial flows. It recognises the importance of democracy, the promotion of gender equality, private-sector development and economic inclusive growth. It also addresses the importance of domestic good governance, the role of the private sector, the need to lower the transaction costs of migrant remittances, and the role of a universal, rules-based, open, non-discriminatory and equitable multilateral trading system to stimulate development worldwide. On development cooperation, the Doha Outcome document recognises and reaffirms the role of official development assistance (ODA) and the need to fulfil existing commitments (including allocating 0.7 per cent of GDP), but it also acknowledges the role of new sources, such as South-South and Triangular Cooperation.

The document calls for enhanced coordination and an increased role for developing countries in international financial governance. In the section related to "emerging issues", the Doha Outcome document identifies – for the first time in the FfD context – the concerns about climate change and the need for additional resource mobilisation to address the challenges it entails, in order to support the appropriate national adaptation and mitigation strategies and actions, particularly for developing countries.

The Third International Conference on FfD took place from 13 to 16 July 2015, and it adopted the Addis Ababa Action Agenda (AAAA) (DESA, 2015). Perhaps the main achievement of Addis Ababa was to align the FfD agenda with the other important contemporary development agendas – particularly the SDGs (2015) and the Paris Agreement on Climate Change (2015) – in support of the post-2015 Development Agenda, which later became the 2030 Agenda for Sustainable Development.

These documents reinforce each other and present a vision on how sustainable development is conceived as an opportunity for enhancing the living conditions of the whole world, both in developed and developing countries. Together, these agreements were successful in moving the international narrative on development from a primarily "ODA-driven" discussion centred in poverty alleviation to a broader vision that comprises all societies. This vision is transformative and multidisciplinary, and it establishes a civilisational roadmap for humanity in terms of sustainable development, resilience, as well as inclusive and fair economic growth (Pawłowski, 2011).

The AAAA launched an enhanced and revitalised global partnership for sustainable development that is led by governments but takes advantage of the resources, experience and capabilities of the private sector, civil society, the scientific community, academia, philanthropy and foundations, parliaments, local authorities and other stakeholders.

On international development cooperation, the AAAA acknowledges the important role of international public finance in complementing domestic public resources – including ODA, concessional and non-concessional financing, South-South Cooperation and innovative financing mechanisms – as well as the need to ensure the efficiency, transparency and effectiveness of these flows. The AAAA strongly advocates for an increase in climate and environmental finance.

Finally, the AAAA strengthened the institutional follow-up process of the FfD agenda, establishing an “Inter-Agency Task Force” with the major institutional stakeholders (such as the IFIs) and the UN system, funds, programmes and specialised agencies with related mandates.

Assessing the results of Doha and Addis Ababa is a difficult task. If taken individually – although progress has been made in the commitments undertaken – many results have not been achieved, and some are not even close: such as increasing ODA to 0.7 per cent; ensuring sustainable debt management; fighting domestic corruption; and ensuring an open, rules-based international trade system with special access for less-developed countries, among other things.

However, changes to the domestic and international FfD frameworks are slow and gradual, and its effectiveness is differentiated. Gathering the world’s decision-makers and main players to discuss this important agenda fosters new ideas, helps to gain momentum and ultimately promotes advancements. As an example, ensuring the much-needed reforms to the international financial architecture to guarantee the mobilisation of stable and long-term financing to combat the climate crisis and achieve the SDGs (UN, 2023) requires a gathering that creates substantial momentum, to which the FfD process is a significant contributor.

2 What has been the role of Mexico in the FfD process as guardian of the “spirit of Monterrey”?

Mexico is a middle-income country and an emerging market with responsible economic policies designed to avoid financial crises, but it is also concerned with promoting justice, social inclusion, and fighting poverty and inequality domestically and internationally. Mexico is also a generous country that has been involved in international development cooperation for decades. A country from the Global South, it has strong and expanding economic ties and shares democratic values with the Global North.

Building on its unique position and its diplomatic history – characterised by promoting a rules-based international system that is conducive to development – Mexico took over the leadership of the FfD process, promoting a progressive agenda and building bridges between actors with different perspectives and interests. Mexico has consistently been “the guardian” of the spirit of Monterrey for more than 20 years.

Mexico has been at the core of the MC since its inception. The High-Level Panel mandated by Koffi Annan in preparation of the conference was led by former President Ernesto Zedillo. A distinguished Mexican diplomat, Ambassador Mauricio Escanero was the Facilitator of the MC. Establishing the process in the late 1990s was a big achievement that required a great effort. The negotiation of the MC was a long and arduous process (Hakim Simón, 2002).

Mexico hosted the 2002 MC. Besides economic and institutional efforts, Mexico invested a great deal of political capital in ensuring that 50 Heads of State and Government and 232 Ministers attended the conference, which was held during a critical period for the international community, as it occurred six months after the horrendous 9/11 terrorist attacks (Cortés Zea, 2023).

For the 2008 and 2015 conferences, Mexico continued its role as a constructive bridge builder, promoting the ambitious advance of the FfD agenda. Mexico managed to include important elements in the respective outcomes, such as the differentiated but still present needs of middle-income countries, the importance of migration and the need to reduce the costs of transferring remittances, and the relevance of the gender and human rights perspectives in development financing. Mexico played a leading role in the strengthening of the FfD institutional follow-up process, particularly the establishment of the yearly UN Economic and Social Council (ECOSOC) FfD Forum, which is its backbone.

Through many very professional and competent diplomats and diplomatic staff, Mexico has also been a consistent promoter of the FfD follow-up process in the UN General Assembly and

ECOSOC. Mexico traditionally presents and facilitates resolutions on the matter, organises substantive discussions and engages with a broad range of institutional stakeholders.

Building on this enormous amount of collective work, Mexico has hosted the annual retreat of the "Friends of Monterrey" since 2016. The exercise was established in association with Germany and Switzerland and the support of the FfD Office in the UN Department of Economic and Social Affairs (DESA) after the adoption of the AAAA. The idea was that, after the success of Addis Ababa, we needed to "get right" the first ECOSOC FfD Forum. With that in mind, it was decided that FfD "negotiators" should discuss in a friendly and non-negotiating environment the substance of the documents to be reviewed by the Forum, most notably the UN Inter-Agency Task Force (UNIATF) report. The exercise has been so useful that it has become an annual occasion, "informally" a full part of the FfD process.

In recognition of this trajectory, Mexico is now one of the Co-facilitators of the preparation process for the 2025 Seville Review Conference. Mexico maintains a high level of commitment and diplomatic capacity to achieve the best possible collective result in the current challenging international context.

3 Vision towards Seville

The world is currently in a phase of exacerbated economic and geopolitical challenges. In the context of the present work, perhaps one of the most pressing issues is the questioning of multilateralism and international organisations as instruments for countries to achieve their common goals for peace and development, as identified in the Pact for the Future (UN, 2024), which was adopted in September 2024.

In Seville we should focus on how we make our development financing solutions work in a world that might seem riskier and that is facing more crises than ever, and establish a new global financing framework which ensures we correct the course towards the achievement of the SDGs in 2030.

The UNIATF report identifies four overarching questions to be addressed at the conference:

1. How can the conference help close the large financing and investment gaps, at scale and with urgency, and enhance the effectiveness of spending?
2. How can the conference help close gaps in the international financial architecture and support international rules for trade, investment and finance that are fit for purpose for today's challenges?
3. How can the conference help close credibility gaps and rebuild trust in the global partnership and multilateralism?
4. How can the conference help to formulate and finance new development pathways to deliver on the SDGs and ensure that no one is left behind? (UNIATF, 2024)

Addressing the issues raised is difficult but possible. It is the task of political leaders, but also of all other development stakeholders: civil society, the private sector, parliamentarians, trade unions, the scientific and academic community, among others. We all have a say because we all have a responsibility, under the coordination and leadership of national democratic governments.

The UNIATF report (2024) estimates the financing gap for achieving the SDGs and the large-scale transitions needed to avoid catastrophic climate change is up to $4 trillion annually. Mobilising these enormous resources requires massive levels of technical expertise. Some of the crucial elements identified in the "elements paper" (DESA, 2022) put forward by the Co-facilitators in this regard comprise: aligning domestic tax systems and international fiscal

cooperation with the 2030 Agenda; stepping-up private resources; reforming the international development architecture; increasing ODA and South-South Cooperation; financing climate, biodiversity and ecosystems; addressing the deadlocks in the international trade system; ensuring debt sustainability; modernising global economic governance; and making sure that technological advances benefit development.

But perhaps more importantly, it requires political will: to be aware that the cost of inaction, of business as usual, is greater by far, and that no country will be truly safe or prosperous unless we internalise the principle of "leaving no one behind" and putting those in the direst need first.

The Seville FfD Conference is an opportunity that cannot be missed in this regard.

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From Monterrey to Seville: an overview

Stephan Klingebiel, Jorge A. Pérez-Pineda & Kathrin Berensmann

1 Introduction

In 2025, Spain will host the Fourth International Conference on Financing for Development (FfD4). This pivotal gathering takes place at a critical juncture, coinciding with the conclusion of the Sustainable Development Goals (SDGs) era and the onset of global deliberations on the post-2030 Development Agenda. The conference represents an opportunity to reflect on the successes and shortcomings of the SDGs while shaping the financial frameworks needed for future international cooperation.

The purpose of this Discussion Paper is to provide meaningful input to the preparatory process of FfD4 by offering insights into key challenges, opportunities and innovative approaches. The paper aims to contribute to the broader dialogue on financing for sustainable development and support informed decision-making for a robust and inclusive development agenda beyond 2030.

2 Milestones from Monterrey to Seville

In the 10 years since the last International Conference on Financing for Development (FfD) took place – and only five years until the end of the 2030 Agenda and the SDGs – FfD4 will take place in Seville, Spain, in 2025. However, much like in the wider world, there have been deep changes to the global development agendas. Since its first summit, the FfD process has been instrumental in setting the foundations for a global framework to strength economic cooperation and the financial architecture in order to face the challenges of the world and mobilise the resources for sustainable development and systemic issues. Some of the main achievements of this process are outlined below.

The first conference on FfD took place in Monterrey, Mexico, in 2002. It presented an integrated and comprehensive proposal on the relevance of domestic and international financing resources for development in the so-called Monterrey Consensus, including: innovative sources, trade, debt, international cooperation and systemic issues. The relevance of this summit could be framed around five key issues: 1) the relevance of all sources of financing no matter their origin to improve resource mobilisation, 2) innovative finance that takes into consideration new tools and policies to complement ODA (official development assistance) efforts, such as a Tobin tax, carbon taxes and special funds, among other items, 3) the recognition of the relevance of ODA and the commitment for 0.7 per cent of GDP as a target, 4) a global framework for financing development that is aligned with the Millennium Development Goals (MDGs) and 5) a global partnership for development, aligning with MDG 8, emphasising the relevance of development cooperation.

Later, in 2008, in the context of the international financial crisis, the Second International Conference on Financing for Development took place in Doha (2008) and showed little progress. Despite this, the commitments with the Monterrey Consensus were reaffirmed, emphasising a more stable and fair system for development through better regulations and tax systems, combating corruption and fair trade, among other issues. Three aspects may be underlined in this conference: firstly, the recognition of the need to pay more attention to emerging issues such as climate change, illicit flows and debt sustainability; secondly, the relevance of the private

sector to this agenda is reaffirmed; and thirdly, the importance of policy coherence to react to the international financial crisis, meaning national development strategies to overcome it.

Finally, the Third International Conference on Financing for Development, which took place in Addis Ababa in 2015, laid the foundations for a global framework to finance development post-2015 in order to support the achievement of the SDGs and the 2030 Agenda. In this regard, three elements of the Addis Ababa Action Agenda would be highlighted: the consideration of a global alliance for sustainable development; the importance of policy coherence; and the importance of private-sector participation extended to small and medium-sized enterprises and other forms such as philanthropy. In addition, the recognition of other relevant actors would be added, such as middle-income countries and cooperation modalities such as South-South Cooperation (SSC) (based on the responsibility of developing countries for their own development, in relation to the ownership principle), and national development banks; the incorporation of science and technology and capacity-building as a new area of action; and finally the relevance of data and monitoring for transparency, results-based financing and accountability.

Conferences prior to FfD4 introduced a multitude of items: global frameworks for financing global agendas and sustainable development as emerging issues; the incorporation of new and relevant actors; the underlining of the relevance of policy coherence between different levels of policy tools conductive to development finance; the mobilisation of resources and creation of incentives around trade, investment, debt, technology, consumption, production and investment; the relationship between national policies vs international rules, regulations and standards; the aligning of resources with global goals (UNIATF, 2016, 2024).

3 Context matters

The international context for cooperation is increasingly constrained, despite persistent rhetoric suggesting otherwise. Development issues are no longer confined to a niche audience of specialists but have become deeply intertwined with geopolitics (Klingebiel, 2023; Sumner & Klingebiel, 2024). China's growing global influence exemplifies this shift, driven in part by its strategic use of soft power through initiatives such as the Belt and Road Initiative and the Global Development Initiative (Nath & Klingebiel, 2023). In response, other major players, such as the European Union (EU), the United States, Japan, South Korea and India, have established their own infrastructure initiatives to counterbalance China's expanding reach. The Global South has also emerged as a formidable force in shaping global governance, with the G77 often leveraging its collective power effectively within the UN framework (Baumann, Novoselova, Surasky, & Schönrock, 2024).

This changing landscape is further complicated by the rise of populist and right-wing leaders and governments, which have gained prominence ahead of FfD4. This trend is evident both in the Global South, with figures such as President Javier Milei in Argentina, and in the Global North, where the second term for Donald Trump signals fundamental disruption (Klingebiel & Baumann, 2024).

Maintaining the functionality of international organisations – such as the UN, the Organisation for Economic Co-operation and Development (OECD), the G7 and G20 – becomes significantly more challenging when the world's leading superpower disregards established international rules and norms. Actions such as undermining territorial integrity or coercing other nations undermine global governance mechanisms, including those related to climate finance, ODA and the broader FfD platform. These shifts place the current world order in a state of flux, making it likely that FfD4 will be relegated to the margins, with its significance diminished amidst broader geopolitical upheavals.

However, this challenging context also underscores the urgency of understanding the actors, processes and financial modalities shaping sustainable development.

4 The role of FfD4 in development and sustainable finance

Currently, development finance and its related objectives are facing a variety of crises, including geopolitical tensions, climate, health and debt crises. These crises have led to an increased need for development financing, with the OECD estimating that the financing gap in funding required for developing countries to achieve the SDGs is $3.9 trillion per year (OECD, 2022). Against this backdrop, a coordinated international effort is essential to increase the scale and effectiveness of development financing and promote sustainable development globally, particularly in line with the 2030 Agenda. A key building block of global cooperation in this context is the UN FfD process – from the first FfD conference in 2002 to the fourth FfD conference in Seville in 2025.

The overarching goal of the FfD process, including FfD4, is to mobilise adequate financial resources for the sustainable development of countries in the Global South, and to design appropriate architectures for development and sustainable finance. The FfD process is unique in that it takes a holistic approach, involving all sources of development finance and all public and private stakeholders.

FfD4 is associated with a number of benefits. Primarily, the FfD process – including FfD4 as such – is a means of fostering a shared understanding and facilitating policy action based on a broad consensus. As an inclusive UN process involving all public and private stakeholders, FfD4 can mobilise the political will for a collective commitment to ensure that developing countries are not left behind and can participate in shaping the international finance architecture for development and sustainable finance.

The FfD4 conference provides a platform for those countries that are not usually represented at the institutions governing international financial markets to have their voices heard, particularly those in the Global South. This is specifically relevant for the Bretton Woods Institutions, the International Monetary Fund (IMF) and the World Bank (WB), where countries in the Global South have relatively minor shareholding and voting rights. Secondly, particularly in the face of current geopolitical challenges, it is vital to restore confidence in multilateralism and strengthen development finance as a crucial requirement for sustainable development, and therefore as a key pillar of global peace. Furthermore, the conference is expected to foster collaboration among all relevant private and public stakeholders, who are invited to provide contributions to the preparatory conferences, papers and UN hearings of FfD4. Thirdly, as a UN-led process, FfD4 is recognised and can influence the design and implementation of the development and sustainable finance architectures. Fourthly, FfD4 can be used to support other international processes, for example climate negotiations (Conference of the Parties – COP), G20, IMF and WB meetings (Berensmann, Brandi, Hilbrich, & Walle, 2025).

Nevertheless, the FfD process, including FfD4, faces several challenges.

- Primarily, the UN is the largest possible grouping of countries that often has to agree on highly aggregated compromises which do not have a real impact on reforms in the development and sustainable finance architectures. It is difficult to monitor and evaluate the real impact of international negotiations on sustainable development.

- Secondly, the UN's capacity to initiate and implement reforms of the development and sustainable finance architectures is limited, particularly in terms of its influence on the

international financial architecture, as the mandates and authority are predominantly held by other formal and informal institutions, including the IMF, the WB and other special international financial institutions. Moreover, the private sector plays a pivotal role in the development and sustainable finance architectures. It is responsible for the management of substantial financial resources as well as the design and implementation of numerous instruments and processes. For example, the International Capital Markets Association (ICMA) is an organisation that represents financial institutions operating in the international capital markets on a global scale. The ICMA is a leading authority on financial regulation, setting and promoting industry standards and recommendations. Working with regulators and governments, the ICMA plays a key role in ensuring that financial regulation is conducive to stable and well-functioning capital markets.

- Thirdly, although all stakeholders could participate in FfD4, not all stakeholders are strongly engaged. For example, there is little incentive for the private sector to be involved, although it is a key actor in the international development and sustainable finance architectures (Berensmann et al., 2025).

5 Which achievements are realistic or possible at FfD4?

Despite the constraints, it is essential to engage with the key issues and challenges of sustainable finance. This is why, across 16 sections, we delve into various dimensions of the sustainable finance debate, offering insights into what can be achieved in this complex and dynamic environment.

Roadmap of our contributions

1. This introductory paper summarises the main goals of the Discussion Paper, providing the context and the main milestones of the FfD process, as the expectations of the Seville meeting. Hence, this Discussion Paper aims to inform FfD4 preparations by highlighting key challenges, opportunities and innovative approaches to sustainable development financing.

2. The FfD4 conference faces significant challenges, such as declining public resources, geopolitical tensions and the waning influence of ODA. Discussions revolve around shifting ODA governance to the UN and mitigating the impacts of declining global cooperation, worsened by political changes such as Donald Trump’s return to the White House.

3. This paper examines South Africa’s Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) as a model for development financing, highlighting factors such as policy support, national financial involvement and stakeholder collaboration. It provides recommendations for FfD4, emphasising leveraging domestic finance, country-specific systems and enabling environments to mobilise private-sector resources effectively.

4. Traditional ODA is inadequate to meet global development needs, leading to innovative financing strategies. These include international taxes, private finance mobilisation and system optimisation. Challenges persist with mobilising private investment and ensuring debt sustainability amid global crises. The integration of climate and development agendas and structural reforms is essential for progress.

5. China critiques the current global financial system for neglecting the needs of the Global South. It advocates for a development finance approach that emphasises poverty reduction and infrastructure. The rationale for founding new multilateral banks highlights China’s intention to reshape the international development landscape.

6. The decline of the traditional North-South development cooperation paradigm has led to efforts such as modernising ODA, defining SSC and creating Total Official Support for Sustainable Development (TOSSD) as a new metric. The paper focuses on TOSSD's role in capturing diverse development finance flows, including global public goods.

7. The new collective quantified goal (NCQG) decision from COP29 reveals divisions between developed and developing nations, blurring the lines between climate and development finance. The upcoming FfD4 will revisit issues such as funding allocation, accountability and additionality, which remain unresolved amidst geopolitical tensions.

8. The Bridgetown Initiative emphasises mobilising external finance, but it faces challenges such as debt pressures and exchange rate issues. To remain relevant, it must evolve into a cohesive global platform, addressing inconsistencies and refining its strategies for financing development.

9. FfD4 is taking place amid SDG setbacks and climate challenges. This paper critiques the global financial system's inadequacy in addressing the financing gap, especially for developing nations facing debt and fiscal constraints. It advocates for innovative mechanisms such as Global Public Investment, equitable taxation reforms and stronger SSC to enable sustainable and inclusive progress

10. SSC and Triangular Cooperation have grown significantly, offering innovative solutions to global challenges. This paper calls for stronger North-South collaboration and diversified partnerships to tackle development and climate issues in a post-2030 context.

11. Financial markets continue to misallocate capital, favouring harmful investments over sustainable ones. Coordinated global efforts are needed to enhance transparency, incentivise sustainable finance and create policy frameworks that balance international coherence with local needs.

12. The private sector's role in development financing is essential yet underdeveloped. As FfD4 approaches, this paper highlights its contributions to advancing SDGs and addresses challenges to deepen private-sector engagement in a post-2030 agenda.

13. This paper argues that ending global poverty should be the minimum goal for any post-2030 framework. It examines financing challenges such as ODA, debt relief and taxation, offering recommendations to align FfD efforts with SDGs.

14. Development finance increasingly prioritises global public goods, risking a shift away from poverty reduction. This trend complicates collective action and raises concerns about the legitimacy and equity of funding allocations.

15. The EU, which is a major ODA contributor, lacks a unified stance on FfD policy issues. Differences among member states and recent unilateral initiatives weaken its collective impact, highlighting the need for stronger coordination and a better focus on beyond-ODA challenges.

16. Multilateral development banks are expanding their mandates to address global challenges such as climate change but risk diverting resources from poverty reduction. FfD4 must advocate for reforms to boost the financial capacities of multilateral development banks, including leveraging callable capital and special drawing rights.

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Part 1: Lessons and learnings regarding development finance

The elephants in the room: uncomfortable perspectives on the Fourth International Conference on Financing for Development

Stephan Klingebiel

Abstract

The Fourth International Conference on Financing for Development (FfD4) is a crucial platform for addressing sustainable development financing. However, it faces growing challenges, including shrinking public financial resources, declining multilateral consensus and increasing geopolitical competition. This paper highlights key but often overlooked issues shaping FfD4, including the decline of official development assistance (ODA), its use as a geopolitical tool and debates over shifting ODA governance from the Organisation for Economic Co-operation and Development (OECD) to the United Nations (UN). It also examines the impact of Donald Trump's return to the White House, particularly the freeze on US development cooperation. Amid global crises and shifting power dynamics, the FfD4 process is less about ambitious innovation and more about mitigating the decline of global development cooperation.

1 Introduction: what we prefer not to discuss

The upcoming Financing for Development Conference offers numerous opportunities to discuss sustainable development financing. This fourth conference is not only meaningful but also necessary; in this, I agree with the prevailing arguments. As a UN format, it offers the most inclusive platform for addressing global issues. Financing is a key prerequisite for many urgent measures: from investments in social and economic infrastructure – such as health centres, hospitals and transport systems – to the financing of climate adaptation and emissions reduction, particularly in the energy sector.

At the same time, such a conference format has clear limitations; currently, these limitations are likely more pronounced than in past decades. Public financial resources are becoming scarcer, multilateralism is no longer universally embraced by key players and international cooperation is increasingly being replaced by intense competition and raw power dynamics. Naturally, a way must be found for the extremely heterogeneous group of actors to agree on a common outcome. The zero draft of the FfD4 Outcome document anticipates a constructive approach:

> We, the Heads of State and Government and High Representatives, have gathered in Seville, Spain from 30 June to 3 July 2025 to put in place a renewed global financing framework for sustainable development, building on the outcomes of previous International Conferences on Financing for Development, the 2002 Monterrey Consensus, the 2008 Doha Declaration and the 2015 Addis Ababa Action Agenda. (DESA, 2025)

2 Elephants in the room

Despite this optimism, there should still be opportunities to address the "elephants in the room" – the often inconvenient topics. Below, I aim to highlight some – though certainly not all – of these issues. I primarily focus on public resources and ODA, without delving into topics such as taxation, capital flight or illicit financial flows.

2.1 ODA in a downward spiral

A significant part of ODA has long been based on the idea of beneficial competition among donor countries, which have been united under the Development Assistance Committee (DAC) of the OECD since 1961. Standards, peer reviews and best practices (e.g. regarding tied aid) have contributed to making development engagement as transparent and effective as possible. For decades, this has encouraged governments and parliaments in donor countries to present their development efforts in a positive light, whether through the scale of ODA contributions or alignment with international principles aimed at ensuring maximum effectiveness for partner countries. The DAC has often been criticised (e.g. Hynes & Scott, 2021) for insufficient attention to the quality of ODA contributions, such as when significant expenditures for in-donor refugee costs were included, artificially inflating ODA figures.

The zero draft of the FfD4 Outcome document still calls for an increase in ODA volumes in this traditional sense: "We agree to scale up and achieve our respective commitments to reach existing targets of 0.7 per cent of ODA/GNI to developing countries, and at least 0.2 per cent of ODA/GNI to LDCs."

Indeed, the OECD (2025) notes that 2023 marked an all-time high for ODA contributions. Moreover, last year's agreements to increase climate and biodiversity financing – a large portion of which is ODA-funded – suggest a positive dynamic in this area.

However, political reality paints a starkly different picture. Increasingly, development commitments are becoming politically contentious in donor countries. In Germany, for example, democratic parties have proposed aligning ODA contributions with the OECD average (0.37 per cent in 2023) rather than the 0.7 per cent target – a move that would more than halve its contributions. Germany is by no means the only country where such debates are taking place (Ahmed, Calleja, & Jacquet, 2025; Gulrajani & Pudussery, 2025). The 90-day freeze and reassessment of the entire US ODA approach since Donald Trump's return to the White House marks a significant shift in global ODA resources. This move could have profound long-term implications for global development cooperation, extending beyond ODA itself.

It is becoming apparent that various countries will increasingly attempt to avoid false promises on the quantity of their contributions, opting instead for cautious and understated reporting. A negative dynamic of mutual reinforcement between countries has begun.

2.2 ODA as a geopolitical tool

Just as in earlier decades, ODA is increasingly being used as a geopolitical and geo-economic instrument. Global competition, especially with the growing influence of China in developing regions (in many African, Asian and Latin American countries), has brought a new dynamic to the field. China has expanded its influence through soft power, primarily via development initiatives such as the Belt and Road Initiative, the Global Development Initiative and as the major shareholder of the Asian Infrastructure Investment Bank. Europe, the United States and countries such as Japan, South Korea and Australia are leveraging their development policies to counterbalance this influence. Meanwhile, for countries such as India, development issues are also part of an accelerated geopolitical race.

The same applies to other areas, such as access to rare raw materials and green hydrogen. For all of these issues, South-South Cooperation and ODA play an important role, significantly influencing country- and topic-specific ODA allocation decisions.

2.3 From Paris to New York: calls to relocate ODA debates

In the lead-up to FfD4, there have been increased calls to shift discussions on public development cooperation from the OECD in Paris to the UN in New York. Particularly, development-focused NGOs (Civil Society, 2024) have advocated in recent months for relocating ODA governance currently managed by the OECD and DAC to the UN, specifically to the Development Cooperation Forum (DCF). The zero draft (DESA, 2025) addresses the issue somewhat vaguely under the section on "development cooperation architecture".

Global governance structures for international development cooperation raise intriguing questions. Hybrid governance models such as the Global Partnership for Effective Development Co-operation (GPEDC) (Haug & Taggart, 2023) and the Total Official Support for Sustainable Development (TOSSD) (see Bracho on p. 28 in this volume) originated within the OECD but were subsequently transferred to frameworks with strong UN involvement.

For ODA and its reporting system, however, the situation is different, for it is defined as being provided solely by DAC/OECD members. Nonetheless, the exclusivity of DAC discussions and decisions is a major point of criticism, as they exclude partner countries and South-South Cooperation providers.

While the UN and the DCF, by nature, offer a different legitimacy, experience suggests that the UN, including the DCF, is not necessarily a better forum for achieving effective results in terms of rule-setting and norms (Janus, Klingebiel, & Mahn, 2014). The overarching weakening and paralysis of the UN, coupled with intense geopolitical confrontation, exacerbate these challenges (Baumann, Novoselova, Surasky, & Schönrock, 2024). Relocating debates to New York under current conditions risks becoming an instrument of stagnation and deadlock.

2.4 Unconditional transfers: really?

For years, we have observed a global decline in democracy; Larry Diamond (2024) describes this as a "democratic recession". The majority of people worldwide now live in countries where leadership is not freely elected, and civil society is often under significant pressure. This frequently goes hand-in-hand with a lack of development orientation and systemic corruption.

Simultaneously, debates on development and climate financing increasingly demand unconditional cash transfers. This applies partially to civil society demands (e.g. Civil Society, 2024), but proposals such as Global Public Investment also fail to address how to tackle this fundamental problem. This is not about conditions unrelated to sustainable development (e.g. migration return agreements) but about ensuring the prerequisites for development efforts by a country's elites.

Given the ongoing democratic recession and tighter public budgets, the issue of unconditional transfers to potentially unaccountable or development-averse elites is likely to make maintaining development and climate financing more challenging in the years ahead. It is relevant to the underlying assumptions of the FfD process but is not explicitly on the agenda.

2.5 The particularly large elephant: Donald Trump's return

Trump's return to the White House will profoundly impact FfD4 and its themes (Klingebiel & Baumann, 2024). Announced measures such as freezing development cooperation for 90 days and disregarding international rules – from territorial integrity to introducing an "External Revenue Service" for the United States – signal that previous certainties and international norms may no longer apply.

Can serious discussions on revitalising international debates on issues such as tied aid or equitable burden-sharing in climate financing take place under such circumstances? It is difficult to imagine the rest of the world seeking global solutions undeterred while lacking an effective counter-strategy against a disruptive superpower.

Earlier “elephants in the room”, such as the actions of Russia, China and autocratic oil states, could at least be partially mitigated by shared values and Western cohesion. Trump’s return, however, introduces a new dimension of intentional multilateral decline.

3 Conclusion: slowing the decline

FfD4 is imminent. Many of the aforementioned “elephants in the room” have been present in previous conferences, though perhaps were smaller and confined to a corner of the room. However, with Trump’s second presidency and the backdrop of multiple global crises, the conditions for FfD4 are fraught with profound uncertainty.

Even without Trump, we would need to acknowledge a fundamentally changed context. Recent years have been marked by multiple crises. Parts of the international community have sought to mitigate the negative impacts, particularly on poorer countries. Russia’s full-scale aggression since February 2022 has already fundamentally altered the basis of international politics even against individual spoilers.

Since then, we have witnessed further shifts in which power dynamics have been increasingly decisive in advancing national interests. This trend applies even to countries that could contribute significantly to financing international solutions but have largely avoided formal obligations (e.g. China and oil-rich Arab states not listed as contributors to climate finance).

Beyond individual negotiations and outcomes at FfD4, we must examine what new limitations and coalitions might arise under these changed conditions. The “elephants in the room” leave little space for positive change and innovation. The only viable path forward appears to be slowing the pace of decline.

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Development finance in Africa: lessons from South Africa's energy transition efforts

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Abstract

This paper proposes measures for effective development financing mobilisation in African countries, drawing on lessons from the implementation of the South African Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) and its success as a development financing model. The paper identifies key factors contributing to the REIPPPP's effectiveness, including an enabling policy environment, involvement of national financial intermediaries, multi-stakeholder collaboration and the use of country-specific systems. Drawing from South Africa's experience, it provides recommendations for the upcoming Fourth International Conference on Financing for Development (FfD4), emphasising the importance of leveraging domestic financial institutions, promoting country-specific systems and establishing enabling policy environments. The paper concludes that well-designed initiatives can effectively mobilise private-sector resources, reduce costs and achieve substantial development impacts, underscoring the potential for innovative financing mechanisms to address the complex challenges faced by African nations in their pursuit of sustainable development.

1 Introduction

Development finance in Africa is characterised by a significant gap between the funding needed to achieve the Sustainable Development Goals (SDGs) and the resources currently available. As the global annual SDG financing gap reaches $4 trillion, Africa needs up to $170 billion per year just to address its shortfalls in energy, water and transport infrastructure (UNECA, 2024). Despite some progress in domestic resource mobilisation, many African nations still struggle with high public debt levels, which averaged around 68.6 per cent of GDP in 2023 (Afreximbank Research and International Cooperation, 2024). This financial strain limits their ability to invest adequately in essential services and infrastructure, exacerbating poverty and inequality across the region.

The challenges of development finance are compounded by a global economic environment that has seen a rise in borrowing costs and insufficient levels of official development assistance (ODA) being channelled to developing countries (Prydz, 2023). Moreover, the stagnation of ODA grants relative to loans has exacerbated the debt burden of developing countries as they have increased their reliance on non-concessional financing. In the case of Africa, countries have been borrowing at very high costs, averaging up to 11.6 per cent for the interest rate charged on their debt (UNCTAD, 2024).

Given this, alternative innovative financing mechanisms, such as public–private partnerships, will remain important for bridging the development financing gap. FfD4 provides an opportunity for promoting these mechanisms and ensuring that low-income countries can mobilise the financing that they need.

2 Financing lessons from South Africa's renewable energy programme

South Africa's energy transition programme serves as a critical case study illustrating how innovative development financing can help address the complex and resource-demanding challenges faced by African nations in their pursuit of sustainable development. As one of the world's most carbon-emitting countries with a huge dependence on coal for energy generation, South Africa's desire for clean energy transition requires massive investments. The magnitude of the resources needed are reflected in the $98.7 billion Just Energy Transition Investment Plan (JET IP) in which $68.7 billion is required to transform the country's electricity sector (South African Government, 2022). The magnitude of these financial requirements necessitates innovative ways of mobilising finances through partnerships.

To address these substantial resource requirements, South Africa has leveraged development financing partnerships to mobilise adequate resources. REIPPPP stands out as a successful model in this regard. Established in 2010 by the Department of Energy, National Treasury, and the Development Bank of Southern Africa (DBSA), REIPPPP has been a major catalyst for private-sector investment in the energy sector. Through carefully allocated risk between the South African government, DBSA, independent power producers and their financiers, the programme has managed to mobilise $13 billion worth of private investments in power generation from renewable energy sources.

The ultimate objective of REIPPPP is to secure 17,800 megawatts (MW) of clean electricity by 2030; so far, it has delivered 7,465 MW of electricity to South Africans (South African Government, 2024).[1] Moreover, the competitive bidding nature of the programme has significantly reduced tariffs by up to 78 per cent for wind energy and by 91 per cent in the case of solar photovoltaic (PV). The success of the programme in catalysing private-sector involvement in a development initiative demonstrates that well-designed initiatives that leverage public–private partnerships are potential game changers for African countries in need of financing for development.

Evaluations of two projects under REIPPPP, financed by the New Development Bank (NDB) – the Renewable Energy Sector Development Project, and the Greenhouse Gas Emission Reduction and Energy Sector Development Project – identify the following key factors to the REIPPPP's effectiveness, which can be replicated for development initiatives in other countries on the continent.

Firstly, an enabling policy and regulatory environment provided a solid foundation for the programme. The strength of the country's institutions – due to having adequate resources for hiring experienced advisors – ensured effective management. The auction design of the procurement process, which was built on international best practices, attracted high levels of interest from the private sector. Importantly, the programme emphasised fairness, transparency and trust-building; conducting evaluations under strict security conditions; and maintaining strong communication with the private sector.

Secondly, involvement of national financial intermediaries, such as the DBSA and the Industrial Development Corporation IDC of South Africa, was crucial in mobilising commercial capital for low-emission and climate-resilient infrastructure. These institutions acted as enablers and mobilisers of other sources of finance, strengthening the country's own capacity and achieving better long-term development results. The NDB partnership with these institutions, as seen in

1 REIPPPP is part of a wider IPPPP (Independent Power Producers Procurement Programme), which has so far attracted up to $20 billion of investment for energy infrastructure including battery storage, gas and other energy sources.

the Greenhouse Gas Emission Reduction and Energy Sector Development Project and the Renewable Energy Sector Development Project, further amplified the impact of these initiatives.

Thirdly, multi-stakeholder collaboration proved vital in closing the infrastructure financing gap. The success of these partnerships is exemplified by the NDB-financed projects, which not only met but exceeded their initial targets. For instance, the Renewable Energy Sector Development Project, initially aiming for 120 MW of new capacity, is now expected to achieve 640 MW, with corresponding increases in energy generation and CO2 emissions reduction. Likewise, the Greenhouse Gas Emission Reduction and Energy Sector Development Project, which had an initial budget of $600 million, managed to mobilise $2.5 billion for additional outputs by leveraging the co-financing arrangements by the NDB and the DBSA.

Fourthly, the use of country systems proved to be effective in delivering results. Rather than bypassing South Africa's somewhat problematic public finance management and procurement systems,[2] REIPPPP focused on adapting them to create a transparent and competitive bidding process. Local financial institutions played a crucial role in both project financing and due diligence. The programme also built on previous initiatives and market readiness developed over a long period of time. By tailoring the design to the South African context and institutional landscape, rather than simply importing international models, the REIPPPP was able to create an effective, locally owned procurement mechanism that leveraged existing capacities while addressing country-specific objectives.

3 Looking ahead: proposals for FfD4

South Africa's energy transition efforts offer valuable insights that can be incorporated into the agenda of FfD4. Given the success achieved in the financing of the REIPPPP, the following recommendations are made.

1. **Leveraging domestic financial institutions:** FfD4 should emphasise the importance of strengthening domestic financial institutions in developing countries. This can be done through capacity-building efforts aimed at enhancing the project appraisal and risk-management capabilities of national development banks as well as encouraging international financial institutions to form strategic partnerships with local banks to transfer knowledge and expertise.

2. **The conference should promote the adaptation and utilisation of country-specific systems:** This includes tailoring procurement and financial management systems to local contexts, building on existing initiatives and market readiness, and helping develop local supply chains and manufacturing capabilities.

3. **The conference should emphasise the importance of multi-stakeholder collaborative approaches:** This should involve inclusive partnerships between government agencies, private-sector entities, civil society organisations and financial institutions. Co-financing arrangements such as the collaboration between the NDB and South African institutions, which significantly amplified project impacts, should also be emphasised.

4. **The conference should also emphasise the importance of enabling policy and regulatory environments.** It should advocate for the establishment of transparent and stable regulatory frameworks to attract private investment. The South African experience demonstrates how a well-defined policy environment can attract significant private-sector investment.

2 South Africa has a reputation of corruption in public procurement and public finance management.

5. **The conference should promote best practices in procurement,** particularly competitive auction systems based on international best practices to ensure transparency and fairness in the bidding and evaluation processes. This has been key in addressing the challenging institutional landscape in South Africa's energy sector, which has been characterised by financial mismanagement and corruption.

4 Conclusion

REIPPPP illustrates the potential of innovative financing arrangements in addressing the development finance gap faced by African countries. The programme's success in mobilising $13 billion in private investments for clean energy projects offers valuable lessons that can be adapted by other African nations. The model shows that by leveraging domestic financial institutions, utilising country-specific systems, fostering multi-stakeholder collaborations and establishing enabling policy environments, countries can effectively bridge the gap between available resources and sustainable development goals. As FfD4 approaches, these insights should inform discussions on resource mobilisation by emphasising the adoption of similar innovative development financing mechanisms tailored to the unique contexts of developing countries. By adopting the above recommendations, FfD4 can further promote effective development financing mechanisms that are tailored to the needs and contexts of developing countries.

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Development finance: the quest for innovation

Haje Schütte & Jens Sedemund

Abstract

Innovation in international development finance has long been driven by necessity and opportunity, particularly in addressing the financing gap for sustainable development. Traditional official development assistance (ODA) is insufficient to meet global needs, prompting the exploration of innovative mechanisms to mobilise additional resources. The Monterrey Consensus (2002) and the Addis Ababa Action Agenda (AAAA) (2015) both emphasised the role of innovative finance in supplementing existing sources and unlocking new funding streams. This paper explores three primary areas of innovation in development finance: 1) international taxes and levies, which aim to generate non-repayable funding for global public goods; 2) private finance mobilisation, which focuses on overcoming market failures and enabling sustainable investment in developing economies; and 3) optimising the international development finance system.

1 Introduction

The focus on innovation in international development finance has always been driven by a mix of need and potential. It highlights the importance of innovation for achieving sustainable development and recognises that traditional international development finance is often limited and cannot cover the full financing needed for sustainable development.

In 2002, the Monterrey Consensus on Financing for Sustainable Development emphasised that each country is primarily responsible for its economic and social development. It framed ODA as an essential complement to other financing sources, especially for countries that struggle to attract private investment. Innovative financing sources were seen as a way to increase resource mobilisation without placing undue burdens on developing countries (UN, 2003).

In the years leading up to the Third International Conference on Financing for Development in Addis Ababa (2015), the focus on innovation continued to grow. The AAAA laid the groundwork for a global framework to finance development after 2015, supporting the achievement of the Sustainable Development Goals (SDGs). It specifically calls for exploring new mechanisms and replicating existing ones for innovative financing, inviting more countries to participate in these efforts (DESA, 2015, para. 69).

Both Monterrey and Addis Ababa clearly frame the purpose of innovative financing mechanisms: the need to increase the overall level of resources for sustainable development. The need for scaled-up financing connects innovation directly to mobilising and scaling finance sustainably from all sources. Looking at concrete options for innovative finance, three main areas exist:

1. **International taxes and levies** focus on generating additional, non-repayable funding. The goal is to create sources of increased and continued funding, such as budgetary or grant resources. Efforts revolve around the idea of solidarity taxes or levies that are coordinated internationally but implemented nationally, typically to fund public goods. Despite growing attention, especially during the Brazilian G20 Presidency and through the Paris Pact for People and the Planet (2023), concrete progress has been limited. A key reason is that solidarity levies or taxes rely on the same approach as mobilising existing grant-based international development finance, notably ODA, and budgetary resources from developing

countries: the introduction of new levies and/or taxes. Instead of mobilising resources that do not stretch the funding sources of official development finance or developing country budgets, the innovation relates to internationalising approaches and linking them to designated uses, such as expenditures for global public goods. This approach has benefits and challenges: The clear use of proceeds may or may not increase public support for new taxes or levies.

2. **Mobilising private finance and investment** has been a priority for both developing countries and donors. Its role in driving economic development and growth, which supports broader sustainable development and resource mobilisation, is widely recognised. Successful private investment generates economic value added and associated returns that make it financially sustainable. It contributes to overall economic activity and can increase the tax base and government revenue. However, increasing private investment is particularly challenging in least developed countries (LDCs), where needs are greatest. The key question for unlocking additional private investment for sustainable development is how to overcome systemic constraints that create market failures and limit private investment in developing countries. Innovative approaches will only be effective if they do not require permanent subsidisation. Therefore, overcoming market failure and unlocking market creation is central to innovation for private finance mobilisation, as reflected in the Blended Finance principles of the Organisation for Economic Co-operation and Development (OECD, 2018).

3. **Optimising the mobilisation of finance through the international development finance system**. This area includes issues such as the voluntary re-channelling of IMF special drawing rights (SDRs), potentially in the form of lending by multilateral development banks (MDBs), and the optimisation of MDB balance sheets, including the securitization of MDB portfolios. Discussions have been ongoing since before the AAAA, but efforts for concrete action have intensified in recent years, as seen in the coordinated reform programme of major MDBs. The potential to generate additional financial resources from the existing institutional architecture is substantial. However, optimising the mobilisation capacity of the multilateral system will not, by itself, generate additional capacity for concessional finance, which depends on the continued replenishment of concessional resources.

2 Key innovations in development finance

ODA modernisation. In 2014, the Development Assistance Committee (DAC) decided to change the methodology for calculating ODA from a cash flow basis to a grant equivalent measure, effective from 2018. This change aimed to provide a more accurate, credible and comparable representation of the provider’s effort, and in particular to encourage a better allocation of concessional resources to where they are most needed, particularly in low-income countries (LICs) and LDCs.

The 2023 agreement on revised methods for measuring donor efforts in private finance instruments in ODA constituted the last element of the process. It aims to encourage the use of innovative mechanisms to develop markets and mobilise private finance. Taxonomies to track key information on development finance, including the purpose of aid and policy objectives, were developed with input from expert organisations from OECD DAC member countries and beyond. With more than 130 countries, international organisations and private foundations providing mostly activity-level data, the OECD is the leading international source of development finance data that is coherent, comparable, accurate and reliable. This data is widely used for various frameworks – including the United Nations indicator framework for the Sustainable Development Goals (SDGs) – and provides evidence for analysis conducted by stakeholders in the

development finance ecosystem. It is critical for enhancing transparency and accountability, which are essential for raising budgetary funds for development.

Old and new providers. Since 2015, the development finance architecture has undergone significant changes, notably with the emergence of new providers. Although OECD DAC member countries continue to provide the bulk of concessional development finance – estimated at around 90 per cent of total concessional development finance – new providers from emerging markets and developing economies, particularly from the BRICS and the Middle East, have gained increasing prominence.

Non-traditional providers such as China, other BRICS nations and countries in the Middle East are starting to play significant roles. Although institutions such as the Islamic Development Bank and entities in Saudi Arabia and the United Arab Emirates are beginning to report more detailed data to the OECD, challenges persist in terms of transparency, collaboration and comprehensive data collection. New providers from the Global South should consider joining international efforts to make the provision of development finance more transparent.[3]

The growing dynamism and capacity of South-South Cooperation (SSC) and Triangular Cooperation have changed the international development cooperation system. Innovative, issue-specific pilot collaborations are finding success. Triangular Cooperation is an investment in inclusive partnerships that can bridge divides and leverage the collective knowledge and resources of all partners to implement the SDGs.

Philanthropic organisations have a unique opportunity to leverage their assets strategically to catalyse development impact. While private philanthropy contributed an estimated $42.5 billion to global development between 2016 and 2019, many foundations are not fully utilising their potential to drive systemic change (OECD, 2023). By adopting financial instruments such as loans, guarantees, and equity investments – beyond traditional grants – foundations can address gaps in development funding, particularly in sectors such as health, education and climate resilience. However, only a minority of foundations currently align their endowments with responsible investment strategies, despite evidence that mission-related investments can generate both competitive financial returns and significant social impact. Greater transparency, collaboration and capacity-building within the philanthropic sector are critical for amplifying its role as a catalyst for achieving the SDGs.

Private finance going mainstream. Mobilising private finance in emerging markets and developing economies remains one of the most significant challenges for sustainable development today. Climate change and biodiversity loss exacerbate long-standing development challenges that countries in the Global South face while also creating new challenges. Developing countries have both large investment needs and potential development benefits from ambitious action on climate change and biodiversity (Bhattacharya, Songwe, Soubeyran, & Stern, 2023). However, capital flows between and within OECD countries dwarf those to developing countries.

Nearly 10 years after the AAAA, the mobilisation of private finance has not yet reached the speed and scale needed for effective development. Recognising the shortfall in development cooperation budgets compared to the SDG financing gap, the Addis Agenda emphasises the mobilisation of private finance alongside domestic resource mobilisation as the only way forward. While the Addis Agenda aims to mainstream "private finance mobilisation" and increase knowledge on how to scale it across the finance and investment ecosystem, the investment required to drive sustainability transitions in developing countries continues to lag behind. In 2023, only $70 billion of private finance was mobilised directly through development finance

3 Elements paper for the outcome document of the Fourth International Conference on Financing for Development (DESA, 2024).

(OECD, s.a.), far from the “billions to trillions” narrative of the AAAA. One reason for the investment shortfall is the adverse financial contexts in developing countries, often marked by the high cost of capital, underdeveloped financial systems and institutional capacity, macroeconomic instability and other structural problems. Finding ways to unlock these funds for investment in developing countries is crucial. Overcoming market failures and the ability to exit concessional and development finance is essential.

Enabling regulatory frameworks are critical to unlocking private investments. A 2022 OECD report recommends developing robust domestic capital markets, clear and consistent policies, and institutional frameworks that incentivise private-sector participation (Bartz-Zuccala, 2022). Meanwhile, instruments such as blended finance have gained prominence as innovative mechanisms to de-risk investments and catalyse private-sector engagement in emerging markets. These include tools such as guarantees, funds targeting currency risks and local currency financing, which have evolved significantly since 2015. Despite progress, challenges persist, such as addressing high local currency interest rates and the reliance of the public sector on grants or subsidised concessional funding. Blended finance is important in bridging the gap between public and private finance, enabling more effective responses to investment challenges in developing markets. This evolution reflects the recognition of the Global North’s capital surplus and the Global South’s demographic growth and emerging opportunities.

3 Debt and debt sustainability

The importance of assisting developing countries in achieving long-term debt sustainability was highlighted in the AAAA, but low inflation and an ultra-loose global monetary policy environment made debt issues less pressing in 2015. At the same time, the increased role of non-traditional donors, particularly China, and the growing access to capital markets by developing countries changed the dynamics of debt stocks and servicing. These changes also sowed the seeds for a changing debtor constituency and increased vulnerabilities.

The relatively benign debt situation changed due to severe natural disasters and social or economic shocks that can undermine a country’s debt sustainability – already referenced in the AAAA, although clearly not as central an issue as it has since become. The impacts of COVID-19 drove borrowing needs to support economies and provide essential safety nets, while also leading to inflationary pressures that shifted the global interest rate environment. In parallel, the growing costs of climate-related disasters started increasing, materially affecting the economic and development prospects of countries.

As a result, debt sustainability and debt restructuring have returned to the international agenda with a vengeance. However, the nature of the issue has changed: The AAAA framed debt primarily as an issue of sound macroeconomic management. Debt vulnerability due to the cumulative effects of increasingly intense and frequent shocks, particularly from climate change, means that debt dynamics are increasingly shaped by external factors beyond the control of countries. This is especially relevant for countries with the lowest income levels and highest vulnerability. The evolution of debt dynamics shows that upper-middle-income countries (UMICs), which have higher income and resource mobilisation capacity, were more caught up in debt dynamics: both debt ratios and debt servicing costs remained stable for UMICs from 2015 to 2022. Conversely, debt levels continued to increase by nearly 30 per cent in both LICs and 30 per cent in lower-middle-income countries.

The increasing linkages of debt dynamics to external shocks have led to discussions on climate and other global public goods. Debt has entered discussions on climate finance, and the idea of large-scale debt-for-nature or debt-for-climate action swaps has gained attention, with various options being explored. Although debt-for-nature swaps are not new, current proposals focus

on larger-scale and systemic approaches to debt restructuring, aiming for broader impact. The underlying notion is to reward developing countries for their role in preserving natural assets and their global public good function, which markets often fail to recognise. However, a key challenge relates to the principle of sustainability: Using debt-for-nature swaps as a permanent solution implies ongoing debt distress and default. When debt becomes unsustainable, restructuring, forgiveness or some other resolution become inevitable at some point.

Debt restructuring and forgiveness have been recurring features in development finance, including financial innovations such as Brady bonds in the late 1980s. The AAAA emphasised that borrowing is an important tool for financing investments critical to achieving sustainable development. Debt management capacity is essential for macroeconomic management and for enhancing access to capital markets and reducing the cost of capital. With the associated higher economic growth, it holds much greater resource mobilisation potential for developing countries than repeated debt restructuring. Discussions on innovative debt restructuring methods are important and hold merit – particularly in connection with global public goods – for mobilising increased resources sustainably and at scale. However, to enable developing countries to achieve sustainable development and climate goals, it is essential to focus on avoiding future debt distress and growing their economies to increase resource mobilisation capacity.

Systemic issues: climate change, biodiversity, and health. Debt dynamics are not the only systemic issues that have come to the forefront of discussions on international finance since the adoption of the AAAA. The climate agenda, particularly following the adoption of the Paris Agreement shortly after the AAAA and the 2030 Agenda, has gained sustained attention at the highest levels of government. The COVID-19 crisis dominated not only development finance but also world politics and the global economy in 2020 and 2021. While the world continues to deal with its ramifications, the focus is gradually shifting. In recent years, the emphasis on biodiversity and nature has increased, closely linking the climate crisis and global health.

While the increasing impact of the climate crisis and the sudden explosion of COVID-19 have heightened the urgency for action, the fundamental constraint is the capacity of developing countries to mobilise resources in response to this urgency. This overall resource mobilisation capacity defines their ability to manage shocks, as well as their capacity for public spending to compensate for lost economic activity and to mobilise investment for acute crisis response and recovery. The concrete, practical challenge is not to increased resources for climate action, health or otherwise. It is to raise resources for developing countries, which can deploy them towards evolving needs and priorities.

Health and health financing have always been integral to the development challenge. Innovative financing approaches have shown their potential in this area, such as advance market commitments that overcame the market failure of developing vaccines for neglected diseases.

Similarly, in practical terms, financing for sustainable development and for climate action in developing countries are inherently linked (Bhattacharya et al., 2023). Most activities that contribute to climate finance reporting are also counted as development finance with climate objectives. The differences between development and climate finance relate to how these activities are accounted for (OECD, 2024). Yet, while both the 2030 Agenda and the Paris Agreement highlight the connections between global development and climate agendas and call for international support for developing countries, discussions on financing sustainable development and climate change have largely treated the two separately.

The reality on the ground, however, testifies to the inherent linkages. Most of the climate finance tracked to assess progress towards the $100 billion goal has been driven by international public climate finance. It was instrumental in supporting a strong overall increase in total official development finance. The focus on climate has increased within development finance, and climate action has been integrated across development cooperation sectors. This has happened

without impacting the share of total development finance going to LDCs or sectors with a traditionally lower climate focus (OECD, 2024). Similarly, development finance supporting biodiversity has increased significantly, although at much lower levels, and in conjunction with climate action: The share of biodiversity-related official development finance that also addresses climate change has steadily increased, from 78 per cent in 2015 to 92 per cent in 2022.

The 29th Conference of the Parties (COP29) agreed on a new collective quantified goal on climate finance, of at least $300 billion per year by 2035 in climate finance for developing countries from a wide variety of sources, with developed countries "taking the lead" and encouraging developing countries to contribute voluntarily. The $300 billion goal is part of a broader call for all actors to work together to scale-up finance for climate action in developing countries from all public and private sources to at least $1.3 trillion per year by 2035.

At a conceptual level, the increasing convergence of development and climate finance agendas could be seen as an important innovation – or a return to fundamentals. Understanding the climate change agenda in terms of its contribution to development – through preserving societies, their well-being and their economic activity – is essential for making progress and integrating climate action into development strategies and policies that will determine the achievement of climate goals. Ultimately, there is one reality, and countries will follow just one development pathway. In practical terms, climate action cannot be parallel to the broader economic reality; it invariably will be an integral part of the economic and political processes that shape outcomes on climate action and sustainable development.

4 Conclusion

The focus on innovation in financing for development has continued and increased since the adoption of the AAAA. While the elements paper for FfD4 (DESA, 2024) foresees the framework set out by the AAAA to remain, there are increasing references to innovation across the different themes. The growing urgency for increased financing, particularly for countries that are most constrained in their ability to mobilise resources for development, has driven this focus. Continued efforts to identify new ways to mobilise additional funds will remain a critical priority, including the role of levies and taxes to correct market inefficiencies and align economic incentives. At the same time, the challenge of the political economy of taxation remains formidable, particularly for international application. Beyond this, a continued focus on innovation for unlocking private finance will be key. Overcoming systemic bottlenecks has the potential to generate sustainable resource mobilisation capacity at no cost, but with benefits to private and public finances.

The urgency of mobilisation is behind continued high interest in and demand for blended finance. Despite steady increases in mobilisation, however, it has not yet reached the hoped-for scale. A key point is that, although blended finance cannot alleviate weak enabling environments, it cannot fully compensate for them either – in particular in terms of underdeveloped financial system infrastructure and capacity, which is often a much more definitive factor than local regulatory and policy settings.

Moreover, the ability to use official development finance effectively to mobilise private finance is also compromised by inefficiencies resulting from regulatory and policy settings in major capital markets. Essentially, countries with underdeveloped financial sectors and savings are penalised for their lack of financial development through barriers to cross-border finance that raise the cost of capital and keep capital scarce.

A continued focus on innovative ways to manage and mitigate risk through blended finance in a financially and economically efficient manner is one key vector in this regard – through new

financial approaches and structures supported by official development finance, as well as evidence and transparent data on transactions and real-world risk incidence. One key innovation would be to create a level global playing field for accountability in development finance, with data becoming the “new gold” for effective risk pricing and the mobilisation of private finance (Publish What You Fund, 2024).

Another important aspect is critically assessing the potential of regulatory and policy settings to create barriers to cross-border finance that do not reflect real economic risks and are not economically efficient. Ensuring that the international regulatory framework does not lead to the costs of capital exceeding real risk may not be considered financial innovation, but it is absolutely central to enhancing the scope for private finance in sustainable development.

The cost and scarcity of capital in developing countries are not just reasons for needing innovative finance mechanisms; they are the original reasons why development finance was created in the first place. Ultimately, any innovation and deployment of development finance should focus on contributing towards resolving these constraints.

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China in development finance

Marina Rudyak

Abstract

This paper introduces China's perspectives on international development finance, the Chinese international development finance approach covering bilateral and multilateral contributions as well as the rationale for founding new Chinese (co-)led multilateral development banks. It highlights China's critique of the global financial system, arguing that the Global North has neglected the core development needs of the Global South, particularly poverty reduction and infrastructure.

1 Introduction

Although China is sometimes seen as a "new" donor, it started giving aid as early as 1950 and has been one of the world's top 10 donors for much of its history. Its global development footprint has continued to expand significantly in the Xi Jinping era, especially since the launch of the Belt and Road Initiative (BRI) in 2013. China's sectoral priorities and implementation modalities are shaped both by a development model that the Chinese government believes has worked well for China – hence the focus on infrastructure-led modernisation and connectivity – and by China's own economic priorities, underpinned by the principle that development cooperation should be mutually beneficial. As such, the BRI aimed to bridge the infrastructure financing gap by promoting land and sea connectivity between China, Asia Pacific, Europe and more recently Africa, while also addressing Chinese overcapacities. From 2013 to 2023, the BRI's cumulative engagement reached $1.053 trillion, with about $634 billion directed towards construction contracts (Nedopil Wang, 2024). The sheer volume of Chinese development finance flowing into infrastructure has raised concerns about excessive debt and insufficient attention to social, governance and human rights issues. The Chinese government partially responded to these concerns by launching the Global Development Initiative (GDI) in 2021, which focuses on poverty alleviation and "small but beautiful" projects. This is likely why China found success with the GDI in areas where the BRI faced challenges: leveraging the support of UN agencies.

2 China's approach to development finance

China's development finance system is complex and structurally different from that of Northern donors, making direct comparisons difficult. Development finance flows fall into three main categories: 1) Official development assistance (ODA)-type flows, referred to by China as "foreign aid", comprising grants and interest-free loans administered by the China International Development Cooperation Agency (CIDCA) and concessional loans approved by CIDCA and provided by the state-owned policy bank Exim Bank, 2) other official finance (OOF)-like flows, comprising preferential export buyers' credits provided by Exim Bank and medium- and long-term project loans provided by the state-owned policy bank China Development Bank, and 3) commercial flows, comprising medium- and long-term project loans provided by China's state-owned commercial banks, mainly the Bank of China and the Industrial and Commercial Bank of China.

Tracking Chinese development finance is challenging due to limited data, but it is estimated to have totalled $1.34 trillion between 2000 and 2021, comprising 11 per cent ODA-like flows, 60 per cent OOF and 23 per cent commercial loans (AidData, 2023). Most Chinese ODA consists of project loans from China Exim Bank and China Development Bank, provided at concessional and commercial rates, respectively, often through resource-for-infrastructure swaps, although OOF has been the predominant mode of delivery, focused on large infrastructure and extractive projects (Rudyak & Chen, 2021). Sub-Saharan Africa was the largest recipient region (with Angola being the largest recipient), followed by Latin America and South-East Asia. According to World Bank estimates, China was the largest bilateral creditor to low- and middle-income countries by the end of 2022, holding $180 billion in public and publicly guaranteed external debt (World Bank, 2023). However, it is possible that this figure is being underreported by up to 50 per cent (Horn, Reinhart, & Trebesch, 2021).

2.1 China's contributions and the World Bank-led multilateral system

China first contributed to World Bank International Development Association (IDA) replenishment in 2007 (IDA15) with $17.6 million in special drawing rights. Reforms in 2010 increased developing countries' voting share, raising China's share from 2.8 per cent to 4.4 per cent by 2016 and 6.1 per cent by 2018. Between 2010 and 2020, China rose from IDA's 30th to its 6th largest contributor. Its largest contribution, $1.3 billion, came in IDA20 (2021) to aid post-COVID recovery, ranking between Canada and France but remaining modest relative to its economy. Non-borrower shareholders, especially the United States, have urged China to contribute more (Humphrey & Chen, 2021). China, on the other hand, has been criticising the slow pace of World Bank reforms, attributing it to it being dominated by the United States and the G7, which it sees as imposing a Western, interventionist approach that neglects borrowers' experiences. It has urged the Bank to be faster, less bureaucratic and more focused on recipient priorities, and it has been particularly critical of conditionalities and the focus on governance and social issues over infrastructure (Rudyak, 2024).

2.2 Chinese-(co-)led multilateral banks

The Asian Infrastructure Investment Bank (AIIB) and the BRICS New Development Bank (NDB) were founded in 2013 and 2014, respectively, against the backdrop of the 2008 global financial crisis, as emerging economies were questioning reliance on developed countries for development finance (Subacchi, 2022). Both are headquartered in China – AIIB in Beijing and NDB in Shanghai. China holds a dominant 27.4 per cent AIIB voting share with veto power it has pledged not to use, while NDB shares are distributed equally among BRICS founders. AIIB grew from 57 members in 2016 to 106 by 2023, despite US opposition. Although they are often seen as Bretton Woods rivals, the new banks are viewed by China as being complementary and filling gaps it sees as having been neglected by the World Bank-led system – in particular in infrastructure development (Rudyak, 2024).

3 Reflections

3.1 China's views on development priorities

In the runup to the Fourth International Conference on Financing for Development, the Chinese permanent mission to the UN has argued that Northern donors have not sufficiently prioritised the Global South's urgent needs, which China identifies as poverty reduction, food security, infrastructure development and climate change (Liu, 2024). The criticism is not new, but it has been voiced repeatedly in the past decade, with China accusing Northern donors of disproportionately focusing on governance and social issues. In contrast, China has positioned the BRI, the AIIB and the NDB to make key contributions towards closing the global infrastructure financing gap, emphasising their role in addressing the investment shortfall neglected by traditional donors and financial institutions, justifying their launch of the GDI by arguing that the 2030 Agenda has gone off track. Although China has become a major development finance provider, the Chinese government maintains that the Global North should keep the lead in international development cooperation and bear the main burden of climate financing, in line with its historical responsibility. At the same time, China is advocating for greater investment in science and technology as well as technology transfer to help developing countries accelerate digital development (Geng, 2025).

3.2 China's views on debt

Debt remains a key friction point between China and the Paris Club countries – fuelled by the latter's concern about the sheer volume of BRI loans and the lack of transparency of loan contracts (Horn et al., 2021). China's share of debt in distressed countries rose from 6 per cent in 2008 to a peak of 18 per cent in 2018, and settling at 14 per cent ($55.1 billion) in 2022, though this is likely underreported (Zucker-Marques, Gallagher, & Volz, 2024, p. 42). In contrast, the Paris Club creditors' share of debt decreased from 26 per cent in 2008 to 8 per cent in 2022, totalling $28.9 billion (Zucker-Marques, Gallagher, & Volz, 2024, p. 44). China's debt relief approach differs significantly from that of the Paris Club. China prefers bilateral negotiations, tailoring programmes creditor-by-creditor – a method criticised for its lack of transparency – with negotiations focusing on individual loan or project sustainability ("one case, one discussion") rather than overall debtor solvency ("one country, one discussion"). Debt restructuring typically involves maturity extensions, grace periods and lower interest rates but avoids face-value reductions. Past evidence indicates that China favours a commercially oriented "new money" approach to addressing debt distress, offering additional funds or rescue loans rather than write-offs, which have historically been limited to interest-free loans under its ODA (Chen, 2020). In post-COVID debt relief efforts, China has argued that international financial institutions and commercial creditors should bear a "fair burden", suggesting they have not done so, while China has been unfairly blamed.

4 Conclusion

China has been generally open to trilateral cooperation, but this does not imply a willingness to adopt Northern standards. Rather, it has sought to build a consensus around its own development approach, particularly since the launch of the GDI. Recipients often see China and Northern donors as complementary rather than competing – with China providing hard infrastructure and Northern donors focusing on standards, governance and capacity-building. Pragmatic trilateral cooperation on technical issues could foster mutual exchange between Northern donors and China – while helping Northern donors to better understand the bureaucratic

logic of China's development cooperation – and enhance project management practices in recipient countries, ultimately benefiting recipients.

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The TOSSD initiative: process, content and its contribution to development finance

Gerardo Bracho*

Abstract

International development cooperation (IDC) is an important piece of a broader Financing for Development (FfD). Yet, though the North-South paradigm of IDC that emerged in the early post-war era lost touch with reality some time ago, we still have no coherent framework to replace it. In recent years, the decline of this paradigm has inspired several processes aimed at adapting the IDC metrics to the new times and their multiple challenges. Among them, we have finalised or ongoing exercises to: 1) modernise official development assistance (ODA), 2) produce, with the support of the United Nations Conference on Trade and Development (UNCTAD), a consensual definition of South-South Cooperation (SSC) that captures the IDC contributions of the emerging Southern powers and 3) create a new metric of Total Official Support for Sustainable Development (TOSSD) that captures the previous two metrics plus other flows beyond aid and those explicitly aimed at generating global public goods (GPGs). This paper focuses on TOSSD.

1 TOSSD: the process

In its 2012 High-Level Meeting, the Development Assistance Committee (DAC) of the Organisation for Economic Cooperation and Development (OECD) made two important decisions: to modernise ODA, and to explore the creation of a new complementary metric for development cooperation beyond ODA, which eventually became TOSSD.[4] More than a decade later, TOSSD is now anchored in a more robust and legitimate governance structure. However, despite significant progress in its substantive development, several critical and contentious issues remain unresolved.

We shall start with the process, which in international relations is as important as content itself. Initially burdened by its origins as a DAC/OECD initiative, TOSSD emerged with a deliberate aim to avoid becoming another donor-driven metric akin to ODA. From the outset, the process sought broader inclusivity, incorporating consultations with non-DAC countries, academia and civil society. A turning point came in 2015 with the Addis Ababa Action Agenda, which endorsed efforts to develop this new metric. By 2017, TOSSD evolved from a DAC workstream into an informal, more inclusive intergovernmental Task Force that included non-DAC members and other non-state actors; though it remained financially dependent on the DAC and operated under its secretariat. Its significance grew when the UN Statistical Commission recognised TOSSD as a source for Sustainable Development Goal (SDG) indicator 17.3.1. Moreover, it incorporated an emerging definition of SSC developed by Southern countries under the umbrella of the Commission and with support from UNCTAD.

A definitive milestone occurred on 1 January 2024, when TOSSD formally transitioned into the International Forum on TOSSD (IFT). Although hosted within the OECD, the IFT gained financial

* Mr Bracho takes responsibility for the views expressed in this paper, which should not be attributed to the Mexican Government.

4 For information on TOSSD, consult the Homepage (TOSSD, s.a.).

independence and established its own secretariat. In May 2024, the IFT held its inaugural General Assembly in Oslo, which elected a Steering Committee to guide its work. The Committee features a tripartite structure with equal representation from traditional donors, Southern providers and recipient countries, along with delegates of multilateral organisations and civil society. As geopolitics drives us towards a renewed global division into political blocs, the IFT offers a more technical and inclusive platform. It brings together officials from both the Global North and South, as well as representatives from civil society organisations (CSOs) and multilateral institutions to shape TOSSD and advance the modernisation of the IDC system. The IFT's mission includes refining TOSSD's statistical framework, collecting and analysing data, and promoting its widespread adoption and effective use.

2 TOSSD: the content

The DAC aimed at creating TOSSD not to replace but to *complement* ODA by filling gaps that the old metric was not adequately addressing.[5] In essence, TOSSD seeks to capture *all* external official financial and in-kind flows generated by traditional DAC donors and non-DAC cooperation providers, which either aim at supporting developing countries to achieve the SDGs, and/or at producing the GPGs that humanity needs to address its global challenges. This explicit linking of TOSSD to the SDGs, which ODA, for example, does not have, demands a conceptual refocus as the 2030 timeline approaches. In the initial phase of its development, TOSSD diverged from ODA in several other key ways:

- **Inclusion of private flows:** Although both metrics remain focused on official flows, TOSSD also aims to measure private flows mobilised through public funding, keeping them distinct without aggregating them.

- **Concessional vs non-concessional resources:** Unlike ODA, which captures only concessional flows, TOSSD includes non-concessional resources, reflecting its "beyond aid" feature.

- **Donor vs recipient perspective:** ODA primarily measures donor effort in line with the 0.7 per cent GNI target. In contrast, TOSSD focuses on development impact by adopting a recipient perspective, which provides each beneficiary country with a comprehensive view of the external bilateral and multilateral flows it receives – information that ODA data does not typically provide.

- **Scope of objectives:** ODA focuses "on the economic development and welfare of developing countries". TOSSD, however, encompasses *all* SDGs, also capturing public expenditures aimed at producing GPGs that address global challenges and benefit humanity as a whole – something ODA, by definition, does not adequately cover, though in practice donors often overextend ODA by including expenditures on GPGs, which it was not originally intended to cover.

To generate the recipient perspective and at the same time cater to GPGs, TOSSD divided its framework into two pillars: The first captures transboundary flows directed at individual TOSSD recipient countries; the second covers all other flows – including regional flows and expenditures within donor countries – which help to better capture expenditures in GPG.

5 For a critical overview of the DAC's journey from ODA all the way to TOSSD, see Hynes and Scott (2021).

As the design process progressed, TOSSD evolved further, encountering unforeseen challenges but also incorporating new positive dimensions.[6] On the former, we should start by recognising that the route towards establishing TOSSD as a robust metric was clouded by the DAC's initial failure to clearly delineate the intended boundaries of the two parallel outcomes it aimed to achieve: a modernised ODA and TOSSD. For example, the slogan "beyond aid" suggested that TOSSD should encompass the innovative financial instruments that some DAC donors were using to mobilise private resources through their development financial institutions. These so-called private-sector instruments had been excluded from ODA, and rightly so, since they lacked a clear concessional component. The modernisation exercise, however, controversially redefined concessionality to include private-sector instruments within ODA. This move not only undermined ODA's coherence as a measure of donor effort, but though these instruments are, of course, also included in TOSSD (as all ODA flows are in one way or another), it also somehow diminished TOSSD's distinct purpose.[7]

More recently, however, it has been TOSSD's turn to encroach into ODA's territory. TOSSD was meant to focus on a *recipient perspective* for two reasons: to fill an information gap not covered by ODA, and to avoid competing with or displacing ODA, which remains anchored to its 0.7 per cent donor effort commitment. Yet, the data can also easily be presented from a *donor perspective*: that is, a source of how much TOSSD each provider is supplying. Sensing that possible competition with ODA had waned, the TOSSD Task Force and now the IFT have been gradually surrendering to the pressure to also present this perspective. Although it remains an open question whether this shift will somehow affect ODA commitments, adopting the donor perspective could enhance overall transparency. It would also enable TOSSD reporters, including Southern providers, to highlight their contributions, thereby broadening the appeal and utility of TOSSD as a metric. Finally, it is to be noted that, to better capture for GPGs expenditures beyond developing countries, the IFT decided to further divide pillar two of the TOSSD framework into two sub-pillars.[8] In this respect, it can be argued that TOSSD has been moving from a "new metric" towards an umbrella of different metrics or sub-metrics, which – as I argue below – could be good news.

During its long creation process, TOSSD has also improved in unambiguously good ways, and the credit for this should, to a large extent, be attributed to its inclusive governance. When Southern actors are invited to join a public-policy initiative coming from the North, they typically find themselves in a dilemma. They ideally join not to legitimise but to contribute towards shaping such initiatives, according to their views and interests, which are often distinct from those of the North. At the same time, they too often lack the technical knowledge and the resources to engage properly in the relevant discussions and negotiations. The TOSSD exercise, stemming from the DAC, has been no exception. Yet, if traditional donors, as expected, have been overall in the driving seat, Southern countries and CSO representatives have made – and are making

6 Throughout its long evolution towards its current yet still incomplete form, TOSSD has garnered some praise but primarily constructive criticism, which has been integral to its development. For instance, in 2016, Chaturvedi et al. argued that TOSSD might "neutralize the distinction" between ODA and SSC. Although this concern was valid at the time, the eventual TOSSD framework enables a clear differentiation between SSC flows and other types of flows. For a detailed discussion, see Chaturvedi, Chakrabarti and Shiva (2016) and Esteves and Klingebiel (2021, pp. 204-207).

7 In a recent paper, senior officials from the French Development Agency rightly contend that, by restricting donors to scoring ODA from their private-sector instruments exclusively through the "institutional method", the DAC has enhanced the coherence of ODA as an indicator of donor effort. However, questions about the concessionality of private-sector instruments persist – in our view, though not in that of the authors (Melonio, Naudet, & Rioux, 2024).

8 Pillar 2 is now divided into sub pillar II.A, which captures regional and global expenditures: issues specific to developing countries or their populations; and sub-pillar II.B, which captures regional and global expenditures: issues of a global nature.

– important contributions that are helping TOSSD to avoid certain shortcomings which donor-driven ODA has been incapable of properly addressing.

I will mention three of them. First, the creation of a “data review mechanism”. As we know, the data that providers report as IDC to country X too often varies widely from the data that country X captures on the IDC it receives. Recipient countries have the right to understand the nature of these gaps and to challenge not only the data from providers, but more importantly, those aid practices which are at the source of those gaps and that they might find illegitimate. This mechanism, absent in ODA, is being refined by the IFT and will be an important feature of TOSSD. Second, the incorporation of additional criteria to complement the GDP per capita for defining the TOSSD list of recipients. This innovation aligns with the widely accepted view that we should include this type of criteria to properly assess development. It also addresses a longstanding demand from middle-income countries. The “elements paper” for the Fourth International Conference on Financing for Development (FfD4) Outcome document calls for the use “of measures of progress that go beyond GDP” (DESA, 2024, p. 9). In contrast with ODA, TOSSD already fulfils this expectation. Third, in discussions on how TOSSD accounts for the financing of GPGs, delegates from the South and from CSOs have been demanding stricter rules to avoid inflating TOSSD figures with expenditures that are primarily geared towards benefiting the North – such as those spent in Northern countries to produce GPGs. Broadly speaking, as TOSSD is experiencing, more inclusive governance in the metrics of IDC tends to limit the natural appetite of providers to inflate their IDC figures – as has continually been the case of ODA over the years.

3 Conclusion: TOSSD from a mega metric to an umbrella of related, well-tuned metrics to advance the FfD4 agenda

This last issue draws attention to the nature of TOSSD. The original idea was to create a metric that would complement ODA: capture public resources that went beyond ODA, focus on impact rather than effort and align with *all* the SDGs. This ambitious agenda is commendable as a step towards enhancing the transparency of the entire IDC system. Partner governments deserve full visibility into all external financial resources flowing into their countries, whether from traditional or Southern providers. CSOs need access to information about how much funding governments receive and how they allocate it. Similarly, the public – both in the Global North and South – has the right to be informed about these financial flows, including those directed towards producing GPGs. In this context, TOSSD strengthens the principles of transparency and mutual accountability, which are fundamental to a modern and fit-for-purpose IDC system.

However, as we said, the journey towards creating TOSSD has revealed unforeseen challenges. The original aspiration to develop a “mega metric” encompassing everything has been tempered by practical dilemmas and varying perspectives. To address these complexities, TOSSD’s designers have adopted a pragmatic approach, recognising the need to accommodate different perspectives (effort and impact), and structuring the metric into different pillars and sub-pillars. This evolution from a singular metric towards an umbrella framework encompassing related metrics and sub-metrics represents a natural and constructive progression. Institutionalising this approach by granting some subcategories with distinct identities and specific names could enhance clarity and usability. The risk, however, lies in aggregating these

diverse components into a single mega TOSSD figure, which may obscure more than it reveals.[9] In sum, TOSSD should strive to enhance overall system transparency while providing coherent and meaningful metrics that not only clarify the challenges we face, but also support more effective strategies to address them.

After years of progress, the TOSSD project is well advanced, but its success is far from guaranteed. Much will depend on how the FfD4 summit in Seville addresses it. On the surface, there should be no problem. As we saw, FfD3 in Addis Ababa endorsed TOSSD at its inception, even when it was purely a DAC initiative. FfD4 would then be expected to assess TOSSD's progress over the past decade, recognising its adoption of inclusive governance and its advancements across a broad agenda, which the FfD4 elements paper captures in its IDC chapter as well as others, such as the last chapter on data and monitoring.

This paper has already highlighted TOSSD's potential contributions to the FfD4 agenda, such as enhancing the transparency and comprehensiveness of FfD flows, capturing global and international public goods, integrating multi-dimensional development criteria, and creating frameworks that unify contributions from both Northern donors and Southern providers. However, the current geopolitical climate poses a challenge, as TOSSD is still often perceived as a Northern-led initiative – the most likely explanation for why it only receives a weak reference in the FfD4 elements paper. Nonetheless, FfD4 still has an opportunity to affirm TOSSD as an inclusive platform where Northern and Southern actors co-create a new development metric (or metrics) attuned to today's challenges. This would send a vital message: The well-being of people and the planet must remain a shared priority, transcending geopolitical divides. Let us safeguard our development agenda from the fragmentation of geopolitics.

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9 Take the question of GPGs mentioned above. We do not have a metric to measure all official support in the creation of GPGs, and TOSSD could help to close this gap. Yet, adding this figure (which includes resources not spent in developing countries) in order to get a total TOSSD would easily drown out all the others and drive the measure out of the realm of IDC altogether, providing thus a confusing message. Melonio et al. (2024) arrived at a similar conclusion over the problems for accounting for TOSSD pillar 2 activities.

How does the new collective quantified goal on climate finance reshape the climate–development finance nexus?

Mariya Aleksandrova & Svea Koch

Abstract

This paper explores the implications and lessons from the process and final decision of reaching a new collective quantified goal (NCQG) under the United Nations Framework Convention on Climate Change (UNFCCC) for the interlinkages of development and climate finance to be discussed at the Fourth International Conference on Financing for Development (FfD4). The NCQG decision adopted at the 29th Conference of the Parties (COP29) in Baku reflects deep divisions between developed and developing countries and weakened commitments under the Paris Agreement, charting a challenging path forward for development cooperation on climate issues. The question now is whether the NCQG decision has already settled the discussions about additionality of development and climate finance (by removing it from the NCQG text), or whether it will be reopened in Seville at FfD4, given the disappointment and frustration of developing countries with the decision. Overall, the new climate finance goal maintains the status quo by allowing contributors to direct funding through channels that best serve their interests, blurring the lines between climate and development finance, while also shifting control beyond traditional donors. In addition, the vagueness of the NCQG decision text on balanced geographic and sectoral (mitigation and adaptation) allocation falls short of establishing concrete targets for a minimum allocation floor for the most vulnerable countries. The tough and geopolitically heated negotiations in Baku on scaling-up finance and improving quality are expected to be a precursor to what we can anticipate at FfD4.

1 Introduction

The 2015 Addis Ababa Action Agenda (AAAA) acknowledges the UNFCCC as the primary forum for negotiating the global climate response, with the main objective of the AAAA being to focus on financing sustainable development and the Sustainable Development Goals (SDGs). The AAAA reaffirmed the importance of commitments to climate change, including the $100 billion goal[10] and support for the Green Climate Fund (GCF), and it recognises the need for transparent methodologies in reporting climate finance. However, the AAAA was agreed months before the 2015 Paris Agreement, and since then, the UN climate change regime has evolved significantly alongside the worsening climate crisis. Climate and development finance, even though served by different frameworks, are inextricably linked. The ever-growing finance needs for urgent climate action risk crowding out public finance support for other long-term sustainable development investments. Moreover, climate change drives rising debt levels, particularly in least developed countries (LDCs) and Small Island Developing States (SIDS), leading to shrinking fiscal space for development financing. At the same time, funding for climate initiatives and the integration of international development efforts with climate objectives are lagging behind the rapidly increasing impacts of climate change (UNIATF, 2024). In November 2024 in Baku, at COP29, climate finance took centre stage as a new

10 In 2009, developed countries made a non-binding commitment "[….] to a goal of mobilising jointly USD 100 billion dollars a year by 2020 to address the needs of developing countries. […..] from a wide variety of sources, public and private, bilateral and multilateral, including alternative sources of finance" (UNFCCC, 2009).

collective quantified goal (NCQG) for climate finance – a successor goal to the $100 billion goal – had to be agreed by all Parties. Although a decision was reached, with the compromise goal of $300 billion, many issues – in particular a further scaling-up of finance, the quality of climate finance and its relationship with development finance – remain unaddressed. It is therefore to be expected that FfD4 will be used as a platform to further a discussion on these topics. In this context, this paper explores the implications and lessons from the NCQG process and final decision for the interlinkages of development and climate finance to be discussed at FfD4.

2 Exploring the climate–development finance linkages under the UN climate change regime

The UNFCCC, adopted in 1992, has established a complex and evolving multilateral environment with core principles, obligations and institutional arrangements to address dangerous climate change by stabilising greenhouse gas concentrations at a manageable level. Since 2015, the Paris Agreement has served as a legal basis for a collective effort to limit the increase of global warming to 1.5°C (and to max. 2°C). It introduced binding commitments by all Parties to prepare and communicate national climate strategies, called nationally determined contributions (NDCs). Vitally, there is neither an agreed definition of climate finance, nor legally binding, quantified financial commitments under the UNFCCC regime. Broadly, climate finance refers to various public or private, national or international sources that support mitigation, adaptation and resilience-building activities through instruments such as grants, green bonds, guarantees and concessional loans. The UNFCCC introduced the principle of “common but differentiated responsibilities” (CBDR) and respective capabilities, acknowledging that, although all countries share an obligation to address climate change, their responsibilities differ. Particularly, industrialised countries that were members of the Organisation for Economic Co-operation and Development (OECD) in 1992 have the responsibility to provide “new and additional” finance to existing official development assistance (ODA) resources to developing countries for climate change mitigation and adaptation. Article 9 of the Paris Agreement outlines specific obligations and provisions relevant to climate finance and international cooperation, including: reinforcing the responsibility of developed countries to provide finance; balancing support for mitigation and adaptation; prioritising support for LDCs and SIDS; and recognising the importance of public grant-based resources for adaptation. Another significant development in recent years concerns financing loss and damage,[11] which was formally agreed upon after 30 years of climate negotiations in 2022 at COP27, resulting in the establishment of new funding arrangements and a dedicated Fund for Responding to Loss and Damage (FRLD).

Both the Convention and the Paris Agreement highlight the fundamental connection between climate change impacts and sustainable development and poverty eradication. However, challenges persist in aligning development cooperation priorities and practices with the principles and commitments under the UNFCCC (Koch & Aleksandrova, 2023). Conversely, the NCQG decision adopted in Baku reflects deep divisions between negotiating blocs and weakened commitments under the Paris Agreement, charting a challenging path forward for development cooperation on climate (Koch, Aleksandrova, & Bauer, 2024). Essentially, the NCQG falls short in its commitment to providing “new and additional” development finance sources.

11 In global climate policy, the term relates to observed or projected adverse impacts from slow onset and extreme weather and climate events in developing countries. “Slow onset events” include sea level rise, increasing temperatures, ocean acidification, glacial retreat and related impacts, salinisation, land and forest degradation, loss of biodiversity and desertification.

3 The post-2025 climate finance goal: implications for international development cooperation

FfD4 is expected to primarily focus on scaling-up development finance, with attention on the complementarity, consistency, and transparency of climate and development finance reporting, respectively. The issues of additionality of climate and development finance and the need for grant-based or highly concessional finance in this context are likely to feature prominently in Seville as well. However, these issues saw little progress in Baku, with language in the NCQG decision being even weaker than in the 1992 Rio Convention, as the new goal does not include provisions for funds to be new and additional to ODA. Although a draft negotiating text included provisions that NCQG financing should be new and additional to ODA and other official flows, and that "no development finance should be redirected or labeled as climate finance", these did not make it to the final decision text, largely due to opposition from developed countries. In their submissions to an input paper for FfD4, developing country groupings – including the G77 plus China, the LDCs and the African Group – reiterated that there should be a clear distinction between development and climate finance. They emphasised that climate finance must be new and additional to development finance, and that FfD4 is meant to focus on development finance. The question now is whether the NCQG decision has already settled the discussions about additionality (by removing it from the text), or whether it will be reopened in Seville, given the disappointment and frustration of developing countries with the decision.

Beyond the scale and additionality, critical aspects of the NCQG concern contributors, allocation and access to climate finance – challenges largely mirrored in the development finance discourses and highly prioritised on the agenda at FfD4. The evolving political landscape of climate finance has shifted decision-making authority to recipient countries, disrupting traditional donor–recipient frameworks and establishing new forums dominated by recipients to address the climate crisis (Browne, 2022). The climate funds established under the UNFCCC[12] offer cooperation forms whereby recipient countries have equal (e.g. the GCF) or greater decision-making roles (such as in the Adaptation Fund and the FRLD). Additionally, these funds report to the COP, which regularly provides guidance, for example on various policies. The new finance goal envisions a tripling of the annual outflows through these funds, including through an increase in public sources of finance from a broad range of contributors. However, the UNFCCC funds provided only $3.3 billion and $1.7 billion in 2021 and 2022, respectively (UNFCCC, 2024). A large share of climate finance still flows, and will continue to flow, through bilateral ODA channels and multilateral development banks (MDBs), thus remaining under the control of the contributing country. The NCQG additionally creates opportunities for voluntary contributions from developing countries and for finance mobilised by MDBs, to which non-OECD economies also contribute (Koch et al., 2024).

Overall, the new climate finance goal maintains the status quo by allowing contributors to direct funding through channels that best serve their interests, blurring the lines between climate and development finance, while also shifting control beyond traditional ODA donors. In addition, the vagueness of the NCQG decision text on balanced geographic and sectoral (mitigation and adaptation) allocation falls short of establishing concrete targets for a minimum allocation floor for LDCs and SIDS. Likewise, access to finance appears frequently in the text, but provisions would have limited enforcement and accountability, as they only "urge" all climate finance actors, "encourage" providers of bilateral climate finance and "invite" MDBs to improve access. Although this sends a strong signal to multilateral, bilateral, public and private

12 UNFCCC climate funds refer to the GCF and the Global Environment Facility (operating entities of the Financial Mechanism), the Least Developed Countries Fund, the Special Climate Change Fund, the Adaptation Fund and the FRLD.

actors, only country Parties to the UNFCCC and the Paris Agreement are accountable to the COPs and obligated to comply with the principles and provisions of the UN climate change regime. It is yet to be seen if commitments on allocation and access to development finance will align with the NCQG and make a step forward with concrete goals.

4 Conclusion

When Parties in Paris agreed to establish a new climate finance goal by the end of 2024 (as a follow-up goal to the $100 billion climate finance goals established in 2009 in Copenhagen), many hoped it would result in a robust framework for improved resource allocation, access, effectiveness and transparency of international public climate finance. Yet, the difficult and geopolitically heated negotiations in Baku showed the tremendous challenges that countries faced in trying to live up to these ambitions. Discussions largely centered around the need to scale-up climate finance to the trillions, with developed and developing countries at opposing ends regarding what is considered needed, ambitious and realistic for this new quantum. The decision to triple the former $100 billion goal to $300 billion per year by 2035 – provided by public, multilateral and private sources – is seen as largely insufficient by developing countries. Their concerns are heightened by the fact that key elements of climate finance quality are inadequately covered by the NCQG. Therefore, the tough negotiations in Baku on scaling-up finance and improving quality are expected to be a precursor to what we can anticipate at FfD4 in Seville. Although a reference about the additionality of climate and development finance has been removed from the final decision text of the NCQG, it remains a key concern for developing countries, which are likely to raise this issue again in Seville.

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Bridgetown Initiative: Are the wild days gone?

Jürgen Karl Zattler

Abstract

The Bridgetown Initiative (BI) addresses a wide range of issues related to financing for development, particularly those that focus on mobilising external finance. Like its predecessors, the third edition of the BI calls for very substantial financial transfers. Although it is positive that it gives more weight to revenue-raising efforts, such as international taxes and reducing fossil fuel subsidies, transfers of this magnitude pose very serious challenges: They would contribute to current debt service problems; they risk undermining the much-needed development of domestic financial sectors; and they put upward pressure on countries' exchange rates. The Initiative, and similar calls in the run-up to the Fourth International Conference on Financing for Development in 2025, therefore need a more detailed strategy that avoids these pitfalls.

More generally, the latest iteration of the BI seems to be moving away from incubating new ideas towards absorbing existing ones. This raises the question of the added value of the Initiative. Looking to the future, one option is to evolve into a global convener at the nexus of development and finance. If this is the way forward, the BI will need to overcome incoherence, be consistent in its previous calls and be more specific in its demands. The BI deals with a wide range of issues related to financing for development, notably those focusing on the mobilisation of external financing.

1 Background and ambition of the Initiative

In July 2022, Barbados' prime minister, Mia Mottley, convened a high-level retreat in the capital of the country, Bridgetown, which resulted in the Bridgetown Initiative. The initiators argued that the international financial architecture established in the aftermath of the Second World War was not fit to address today's challenges: a world characterised by unrelenting climate change, growing systemic risks, high levels of inequality, highly integrated financial markets vulnerable to cross-border contagion, and dramatic demographic, technological, economic and geopolitical changes. The BI emphasises the interconnectedness of these challenges, particularly those related to climate and development. It aims to move beyond a focus on official development assistance as the main instrument of international financial cooperation by opening up the perspective to the international system of finance, investment and trade.

The first update of the Initiative (BI version 2.0) was released in April 2023, and the second update (BI version 3.0) was recently presented. The Initiative has already influenced the international debate and several international agreements, notably the Paris Summit for a New Global Financing Pact in June 2023 and the 28th Conference of the Parties in 2023 (COP28), as well as the Spring and Annual Meetings of the International Monetary Fund (IMF) and the World Bank since 2022. The new 3.0 version of the BI contains 16 proposals in three areas: institutional improvement of the international financial architecture ("changing the rules of the game"), "shock-proofing economies" and "scaling-up financing". It takes up many proposals from earlier versions, often in a slightly updated form, for example on the reform of the multilateral development banks (MDBs) to reflect the state of the debate. There are also new areas in the latest BI edition, such as carbon pricing, credit rating agencies, international taxes and philanthropic institutions.

2 Evaluation

The following section evaluates the BI's proposals in a light-touch way, focusing on the last version (version 3.0) and based on four questions.

(a) Are there any substantial cost implications for potential donor countries?

This question is important because it affects the readiness of rich countries to buy into the proposals, given the acute fiscal stress many of these countries are facing, and the political backlash towards engaging internationally, most recently demonstrated by the result of the presidential US election in November 2024.

In fact, most BI 3.0 proposals have substantial cost implications and require high numbers of financial transfers from developed countries. This is not only the case for those under the third heading ("increase financing") of BI 3.0, but also for many others, such as to change the methodology for debt sustainability analyses, to increase the concessionality of lending and to enhance disaster preparedness. In face of these potentially high budgetary costs for donor countries, it is good to see that the BI's new version gives more attention to revenue-raising issues. In particular, it calls for an international tax on the super-rich, the repurposing of harmful subsidies, the taxing of windfall profits from fossil fuel companies, the implementing of a levy on international financial transactions as well as a new allocation of special drawing rights (SDRs) by the IMF.

It is also positive that the new 3.0 version has critically altered its SDR proposal. The formal proposal was to establish a Global Climate Mitigation Trust (GCMT) holding $500 billion of unused or new SDRs. Using the SDRs as collateral, the Trust was supposed to borrow the underlying currencies in the SDR basket and on-lend this cash to projects in return for shares in the projects. This rather complicated proposal has been replaced by the call upon the IMF and its shareholders to agree on a new issuance of at least 650 billion in SDRs to expand the balance sheets of MDBs. This proposal aligns with the current debate by taking up a concrete proposal by the African Development Bank and the Inter-American Development Bank. One of the advantages of this approach compared to the GCMT is that no new institution would have to be created. Literally speaking, however, the proposal is questionable, since such a large capital injection of SDR 650 billion is hardly feasible. This additional capital would allow to increase the MDBs lending volume four- to six-fold, that is, by some SDR2.6 to 4.9 trillion. This would be a multiple of MDBs' present lending volume, currently amounting to $200 to $300 billion per year. The authors of the BI 3.0 should be clearer about the size of the planned capital injection.

(b) Are there inconsistencies between the various proposals?

There is an important point of incoherence that weakens the strength of the Initiative. As outlined in the section above, the Initiative contains many calls for additional resources. However, implementing such large transfers of resources would pose serious challenges:

- First, it could contribute to the current debt distress, an issue that the BI is calling out for urgent attention. Even if concessional, these additional transfers would imply significant future debt service obligations. In its *Fiscal Monitor* for 2023, the IMF (2023) sounded the alarm, warning that relying too heavily on subsidies and concessional borrowing to decarbonise economies would be unsustainable. It estimates that this could increase public debt by 45-50 per cent of GDP for a representative large emitting country, putting debt on an unsustainable path.

- Second, the influx of large amounts of foreign exchange would put upward pressure on the exchange rate of partner countries, thereby negatively affecting local production and undermining the international competitiveness of their domestic economies (risk of "Dutch disease").
- Third, it could jeopardise the much-needed development of domestic financial sectors, which in principle should be – and in successful countries have been – the main vehicle for private-sector mobilisation.

To be clear, the above risks would not necessarily materialise. Much depends on how external flows would be deployed, channeled and used in the economies. *The Initiative – and similar calls in the run-up to the Fourth International Conference on Financing for Development in 2025 – therefore needs a more detailed strategy that avoids these pitfalls.* The following elements could help formulate such a strategy:

- Equity financing should be preferred to external loans because it does not create debt, is longer term and generally has a higher development impact, especially when invested as dormant capital.
- Where possible, external resources should be used to mobilise domestic savings through domestic financial institutions. For example, international development finance institutions can provide guarantees or capital injections to local banks.
- It is important to ensure that the subsidisation of foreign private engagement (through blended finance or risk mitigation) does not take place in a domestic environment that is heavily distorted against green investment, for example high fossil fuel subsidies. More efforts are therefore needed to unlock private investment through fiscal and regulatory reforms and complementary public investment (Zattler, 2024).
- Currently, about 80-90 per cent of MDB lending in development finance is still in hard currency. Lending in local currency should be increased wherever possible. For example, MDBs should provide more guarantees to onshore local currency hedging platforms.
- Sustained efforts should be made to improve the capital market infrastructure and institutions. Local pension funds and local bank deposits could be an important source of development finance and a driver for the development of local capital markets.

A final point on the treatment of debt. As Ellmers (2024) points out, debt issues in general are somewhat under-represented in BI 3.0. At a time when many developing countries are in the midst of a full-blown debt service crisis and experts – particularly from the Global South – are calling for new, more comprehensive debt relief or a moratorium on debt payments, the BI's call for an improvement in the Common Framework for Debt Treatment appears modest. In fact, a large portion of the transfers called for by the BI would be used to service their debts. The question therefore arises as to whether it would not make more sense to cancel some of this debt, possibly on the condition that climate-friendly policies are adopted.

(c) Are the proposals new and have they already been dealt with in international fora?

BI version 3.0 does not contain particularly new ideas. The focus of BI 3.0 appears to be more on the collection of ideas already under discussion. Besides, the proposals are very generic. This is contrary to the BI's initial flagship proposal to establish the GCMT. BI 3.0 is focusing on requests already well-known from other processes. Many proposals are directed at international decision-making bodies, such as the IMF, the MDBs and the World Trade Organization, where most of these proposals have already been deliberated. That the new version has no grand

blueprints is not surprising and is understandable as, given the creativity of the global community, the potential of new ideas is great.

On that backdrop, the question is what the BI's call then adds to the process, for example if it can change the dynamics of decision-making in multilateral bodies, throwing the BI's weight behind certain proposals? There are some signs that this has been the case in certain instances. For example, important aid agencies such as the World Bank have adopted Climate Resilient Debt Clauses in their financing contracts. These clauses now cover all existing loans in eligible countries, while allowing borrowers to defer interest and fee payments and enabling fees to be covered by concessional resources. In the same vein, the BI might also have contributed to the partial implementation of the G20 recommendations regarding the optimisation of MDBs' balance sheets.

(d) Are the proposals relevant and is anything missing?

The proposals in the BI 3.0 are quite comprehensive and largely reflect the current discussion in preparation for the Fourth International Conference on Financing for Development in 2025. It is surprising, however, that some potentially powerful ideas have been left out. This is also regrettable because some of these ideas would not require additional donor resources while addressing important structural deficiencies. One example is (conditional) debt relief, as mentioned above. Another is the introduction of legal provisions to prevent lawsuits by non-cooperative bondholders in the event of sovereign bankruptcy (Hinrichsen, Reichert-Facilides, Waibel, & Wiedenbrüg, 2024).

Moreover, in contrast to earlier BI proposals, such as the establishment of the GCMT, many of the proposals in BI 3.0 are not very specific. Examples include calls for a review of the international trading system to incorporate the Just Green Transition dimension, to work towards a universal carbon pricing mechanism and to develop high-integrity carbon markets. As these are long-standing proposals, more detail would be welcome, for example on how carbon pricing can be designed to avoid negative social and political impacts.

3 Conclusion

The nature of the Initiative is evolving. The BI already seems to be moving away from the incubation of new ideas towards the absorption of existing ones. It also seems to have broadened its scope, now covering virtually all issues related to financing for development. This raises the question of BI's added value. Looking to the future, one option is to evolve into a global convener at the intersection of development and finance, gathering relevant proposals and influencing international agendas. Indeed, the BI has already played this role to some extent quite successfully, rallying other countries behind its proposals using various formats, including regular consultation meetings.

If this is the way forward, the BI should follow up its proposals more systematically and rigorously. Some earlier proposals, such as the contingent debt clauses, have not been fully implemented. Without continued monitoring and follow-up, they risk falling off the agenda. In addition, the BI needs to become more specific in its demands in order to move the international agenda forward. For example, the call for a universal carbon pricing mechanism may be justified, but it does not add anything to the debate. Moreover, the Initiative and similar calls in the run-up to the Conference on Financing for Development need a more detailed strategy for external transfers that avoids the pitfalls outlined above. Finally, it is an open question whether the BI wants to be a voice of the Global South, as it is currently perceived, or to represent a broader spectrum. Bringing together a mixed group of actors, including rich

countries, is more difficult. But by changing the dynamics in the international arena, it could also be more successful.

In short, to continue moving the international agenda forward, the Bridgetown Initiative needs to overcome incoherence, follow-up its earlier calls more rigorously and become more specific in its demands. The International Conference on Financing for Development in 2025 offers a good opportunity.

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Part 2: Challenges and opportunities for development finance in the post-2030 scenario

Challenges before the Fourth International Conference on Financing for Development: a perspective from emerging countries

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Abstract

The Fourth International Conference on Financing for Development (FfD4) is being hosted at a critical juncture, with the Sustainable Development Goals (SDGs) facing significant setbacks and the challenge of climate change. This paper examines the systemic challenges hindering SDG financing, highlighting the inadequacy of the current international financial architecture in mobilising the huge financing gap. Developing countries, burdened by high borrowing costs and rising debt distress, face compounded challenges due to COVID-19-induced fiscal constraints. Resilient infrastructure investment and expanded South-South and Triangular Cooperation are crucial to bridge these gaps. Innovative financing mechanisms – such as the development compact and Global Public Investment (GPI) – enhanced domestic resource mobilisation, reformed taxation systems, including a wealth tax, and equitable private capital flows must be addressed at FfD4. It is critical that global financial systems ensure inclusive and sustainable progress towards the SDGs, particularly for debt-ridden and other developing economies.

1 The present challenge

At FfD4, to be held in mid-2025 in Seville, Spain, countries are expected to agree on how to increase development financing and to improve the international financial architecture.

FfD4 will take place at a time when the Sustainable Development Goals (SDGs) are in deep trouble. According to the United Nations Secretary-General's report (2023) only 12 per cent of the 140 tracked SDG targets have shown some progress, while 30 per cent have regressed below the 2015 baseline. Making long-term finance available is essential for rapid progress in achieving key developmental goals and targets universally.

The recently adopted Pact for the Future commits to closing the SDG financing gap in developing countries. It calls for more enabling environments at the global, regional and national levels capable of increasing the mobilisation of domestic resources and of catalysing developing countries' private-sector investments in sustainable development – by improving domestic and international regulatory and investment conditions.

However, projections by the United Nations Conference on Trade and Development (UNCTAD) and the International Monetary Fund suggest that the SDG financing gap could reach $4.3 trillion per year from 2020 to 2025, an increase of $400 billion over estimates made by the Organisation for Economic Co-operation and Development (OECD) in 2019-2020 (UNCTAD, 2022). Most of the financing gap is found in developing countries. It accentuates the pressing need for development finance that is based on multiple sources and that is affordable, predictable, sustainable and sufficient.

Developing countries are the most under-represented in traditional international financial institutions and governance. They face a mounting challenge to finance the SDGs, particularly due to high borrowing costs and conditionalities, which often push them into debt traps. More

than 55 per cent of low-income countries were at high risk of debt distress, or already in debt distress by the end of April 2022 (OECD, 2024). The median debt service burden for least developed countries (LDCs) increased from 3.1 per cent of revenue in 2010, to 12 per cent in 2023, which is the highest level since 2000. Forty per cent of the global population live in countries where governments spend more on interest payments than on education or health (UNIATF, 2024). Government revenues – accounting for more than 80 per cent of the decline in financing for sustainable development – were severely constrained due to the global economic shutdown. Additionally, the $907 billion increase in government expenditure by developing countries in response to the COVID-19 emergency represented nearly 30 per cent of their 2019 revenues (OECD, 2022).

Against this backdrop, FfD4 must prioritise the Addis Ababa Action Agenda (AAAA) implementation gaps. The establishment of the Technology Facilitation Mechanism in the UN that supports SDG achievement, and an institutionalised Financing for Development follow-up mechanism are the two most important outcomes that the AAAA stands on. The conference underscores the importance of both international and domestic resource mobilisation, advocating for strengthened fiscal systems aligned with the SDGs. It also emphasises the need for ensuring tax compilation and for the unhindered flow of private capital. In this regard, FfD4 asks that all companies pay taxes in the countries where economic activity occurs and value is created, while also calling for the strengthening of national development banks.

Building upon and related to the effort to tax multinationals, Brazil has proposed during its G20 Presidency a wealth tax, which would address lack of development funding. Increasing the tax rate on billionaires to 2 per cent would raise $200-250 billion annually from about 3,000 taxpayers around the world. Extending the tax to centimillionaires would add another $100-140 billion (Zucman, 2024).

In addition, there has been a tendency in the global community to separate climate finance from the 2030 Agenda for Sustainable Development, of which they are an integral part, particularly with regard to SDG 13 on climate action. Alarmingly, only 3 per cent of sustainable investments are directed towards developing countries. Access to climate or green funds for small island developing states (SIDS) and LDCs has also remained disproportionately low, at just 2 per cent and 17 per cent, respectively, between 2016 and 2020 (OECD, 2022).

To address these imbalances, FfD4 calls for a sequential approach to developing local financial markets. This includes fostering the domestic banking sector, establishing savings banks and cooperative banks to build a domestic savings base, and creating new domestic investment vehicles, such as development-oriented venture capital funds, underpinned by sound regulatory frameworks and robust risk management.

For such purposes, infrastructure investments and South-South and Triangular Cooperation are essential from the perspective of developing countries, and are discussed next.

2 The focus areas

2.1 Infrastructure

Poor infrastructure remains a significant supply-side bottleneck in the pursuit of economic growth. The lack of financing is often cited as a primary reason for the slow pace of infrastructure development in many developing countries and LDCs. Infrastructure development encompasses both physical infrastructure – such as transport, water and sanitation, and power – as well as soft infrastructure, which includes systems and services across urban and rural sectors.

Over the past 10 to 15 years, numerous nations have undertaken ambitious, externally financed infrastructure projects. Although these initiatives have delivered some progress, they have also contributed to rapid increases in public and external debt (UNIATF, 2024). The gap between current levels of infrastructure investment and those required to meet the SDGs is projected to grow to an astonishing $18 trillion by 2040 (OECD, 2024).

Multilateral development banks, development finance institutions and national development banks play a critical role in enhancing the capacities of developing countries to plan, build and operate climate-resilient infrastructure. Given the lack of response of traditional international financial institutions, and particularly the World Bank, the BRICS have jointly created the New Development Bank, the first of its kind to address the challenges and needs of developing countries in financing infrastructure and green investments.

Investing in green infrastructure can be up to 33 per cent more expensive than conventional energy infrastructure. Despite these initial costs, the long-term benefits of sustainable infrastructure are undeniable, reinforcing the need for a shift towards environmentally friendly and resilient investments.

2.2 South-South Cooperation

The coordination challenges facing all stakeholders must be addressed to fully leverage the potential of South-South Cooperation (SSC). Chaturvedi et al. (2021) grouped the coordination challenges into three categories: interdependencies of policies, collective action problems, and disconnected national and global policymaking. Achieving the SDGs requires coordinating policies across different policy fields at different global levels. This challenge is compounded by the fragmentation of development cooperation. The proliferation of donor agencies and funding channels – combined with smaller transactions, earmarking and the circumvention of government systems – undermines effectiveness. This trend has led to higher transaction and compliance costs.

Concurrently, the proliferation of alternative, if not rival, metrics to measure development resource flows complicates and obscures mapping out the potential synergies, complementarities and overlap of development cooperation. FfD4 also advocates the adoption of complementary measures of progress beyond GDP, such as the multidimensional vulnerability index, to improve access to concessional financing.

A key alternative approach is the development compact, which integrates SSC under five main components: capacity-building measures, loans, grants, trade and investment, and technology transfers. The development compact prioritises resource optimisation in the Global South to achieve developmental goals effectively, creating a comprehensive framework that ensures the sustainable achievement of targets.

Another development finance proposal has been GPI. First, it moves beyond the donor–recipient divide while advocating for a system in which all contribute and all benefit. There are a few financing mechanisms that already come close to this ideal.[13] Second, GPI claims to move beyond the exclusive focus of combating poverty to bolder aims of reducing inequality and promoting sustainability, with a view towards fulfilling the SDGs and seeking to provide regional and global public goods. Such an arrangement would also require a new and inclusive governance architecture with “more democratic decision-making about the size, purpose and accountability of contributions” and allocation. Finally, GPI is not based on a charity approach,

13 These include some regional development banks and financing bodies such as the Global Fund (albeit voluntary), or in the case of fiscal transfers within the European Union.

but rather on an obligation and an investment, the return of which is not financial, but social and environmental (Glennie, 2021).

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How can South-South Cooperation and Triangular Cooperation improve the financing for development post-2030 scenario?

Laura Trajber Waisbich

Abstract

South-South Cooperation and Triangular Cooperation play a vital role in post-2030 financing for development. Over the past decade, Southern-led financial and non-financial flows have increased significantly, with Southern actors also contributing with innovative ideas, institutions and partnerships to address poverty and other development issues worldwide. Recognising the challenges posed by the current turbulent world to the fulfilment of global development agendas, this paper argues that this momentum calls for renewed efforts across the North-South divide to understand, value and diversify Southern contributions to global development, and more robust action to promote South-South and Triangular partnerships that address both climate and development issues simultaneously.

1 Introduction

Since its re-emergence in the early 2000s, Southern-led development cooperation in the form of South-South Cooperation and Triangular Cooperation (SSC and TriCo, respectively) functions as an additional source of finance and expertise to global development. It complements traditional official development assistance (ODA) in mobilising resources to solve pressing development issues in the Global South while contributing to global public goods. SSC is a broad label for a range of development-related exchanges between developing countries, including knowledge, skills, resources and technical know-how (UNOSSC, s.a.), whereas TriCo centres on collaboration among Southern countries supported by multilateral bodies and/or Northern donors.[14] In an increasingly turbulent and polarised world, TriCo is also a trust-building tool to bridge divides (OECD & IsDB, 2023; Zoccal, 2020).

Southern-led development cooperation flows shape the post-2030 financing for development landscape in diverse ways. Many Southern countries now play dual roles – as beneficiaries of ODA and providers of development finance, expertise and cooperation. Southern countries are also influential in shaping global policy debates on sustainable development agendas, including financing for development and climate change.

The Fourth International Conference on Financing for Development (FfD4), in Seville, is happening at a critical time for collective action on development and beyond, with a backdrop of political and economic instability across the world and conflating global crises, including a deepening climate emergency, the escalation of regional conflicts, and for some a crisis of multilateralism and global cooperation. Although the context is certainly challenging, the past years have seen renewed efforts to, among other things, bridge climate and development finance, set a global framework for cooperation on taxation and make multilateral development banks (MDBs) more effective. Southern leadership at the United Nations (UN) and beyond – including through groups such as the G20 – has been and will remain key to steering these processes with ideas, political leadership as well as resources.

14 See “Triangular cooperation: What is it?” (GPI, s.a.).

This paper argues that SSC and TriCo are pivotal in the transfer of resources, policy ideas and in forging partnerships for sustainable development amidst growing global challenges. FfD4 presents a valuable opportunity to continue understanding, valuing and diversifying Southern contributions to development in an increasingly turbulent world, and to further accelerate South-South and Triangular partnerships that address both climate and development issues simultaneously.

2 South-South Cooperation and Triangular Cooperation in the broader financing for development landscape

Since FfD3 in Addis Ababa, SSC and TriCo increased in material, political and ideational importance. Both have been the object of intentional mainstreaming processes at the UN under the 2030 Agenda (Haug, 2022) and beyond. Although there is no single repository to account for SSC or TriCo, numerous measuring efforts unfolded in the last decade to help draw this picture.[15] Thousands of technical cooperation projects and new Southern-led international financial institutions, funds and initiatives were created, including the Asian Infrastructure Development Bank, the BRICS-led New Development Bank and the China-led Belt and Road Initiative (BRI). Many existing regional banks, such as the Islamic Development Bank (IsDB) and the Development Bank of Latin America (CAF) in the Americas, have increased the volumes of their operations. Meanwhile, countries such as China, India, Brazil, South Africa, Qatar and Saudi Arabia have also increased their voluntary contributions to UN-managed trust funds (Haug & Weinlich, 2023).

Undoubtedly, several fast-growing Southern countries became more assertive in this field and mobilised growing sums of development finance either bilaterally or multilaterally. China is a case in point, due to the volume and reach of its outward development flows. Chinese official data indicates a rise in “aid-like” flows, totalling $42 billion between 2013 and 2018 (about $7 billion annually). Other efforts to track Chinese “aid-like” (grants, interest-free loans and government concessional loans) and “non-aid-like” flows further highlight China’s role as a major player in financing development in the Global South.[16] The Organisation for Economic Co-operation and Development (OECD) estimates that Chinese bilateral gross concessional aid-like flows reached $2.9 billion in 2020 and $3.1 billion in 2021, whereas Kitano and Miyabayashi (2023) estimate an increase in Chinese foreign aid on a grant-equivalent basis from $5.2 billion in 2015 to $7.9 billion in 2022. Despite the conflicting estimates, China’s concessional disbursements are now comparable to the ODA flows of major donor countries, surpassing those of countries such as Australia and Korea.

As for TriCo, since 2015 there has been a slow but steady increase in this modality, with political traction at the UN level and at the OECD. The OECD TriCo project database shows an increase in the number of projects, from about 400 in 2000 to more than 1,000 in 2022. These are often small and short-term projects: almost 70 per cent are below $1 million and almost 50 per cent have a life span of between two to four years. OECD data also shows an increase from $26

15 This includes the OECD Creditor Reporting System, the OECD project repository, the UN Office for South-South Cooperation project repository and the Total Official Support for Sustainable Development (TOSSD). It also includes regional and national databases, notably in Latin America, such as Brazil’s Cobradi Report, Mexico’s National Register for International Development Cooperation (RENCID) and the Report of South-South and Triangular Cooperation in Ibero-America by the Ibero-American General Secretariat (SEGIB).

16 See, for instance, China research from the AidData Research Lab (College of William and Mary, s.a.) and China’s Overseas Development Finance Database (Boston University, s.a.).

million in 2016 to $114 million in 2021. The EU institutions, Canada, Norway and Germany are the top donors engaged in this modality mostly with Latin American partners (OECD & IsDB, 2023).

Although the volume of TriCo remains low compared to overall development finance flows and marginal in traditional donors' ODA portfolios, OECD data also indicates that Southern partners are increasing their financial contributions to global development through this modality. In the case of German–Latin American and Caribbean projects, the Southern contribution amounted to 60 per cent of the total costs (OECD & IsDB, 2023). TOSSD data covering the period between 2019-2021 reinforces some of these trends. It shows financing flows through TriCo increasing from $175 million in 2019 to $378 million in 2021, with Southern actors – such as Indonesia, Brazil, Chile, the IsDB, the Central American Bank for Economic Integration, and the Inter-American Development Bank – playing a role in this modality. Although it is on the rise, TriCo still faces a triple challenge of knowledge, political will and funding (Haug, Cheng, & Waisbich, 2023). Uncertainties about the value-added on this modality remain in both the traditional donor community and among major Southern partners. So far, Latin American countries have been more active in TriCo than their Asian peers. Despite being less enthusiastic in the beginning, China and India now seem to be slowly expanding their role in this modality as well (Chaturvedi & Piefer-Söyler, 2021; Zhang, 2017).

Importantly, since the mid-2010s, both modalities have also moved from an "expansionary" to a "consolidation" phase, marked by reforms, adjustments and politicisation at home and abroad (Waisbich & Mawdsley, 2022). Efforts to mainstream both modalities since the Buenos Aires Plan of Action (BAPA+40) has generated heated debates within large Southern providers and across an already divided international community. At the international level, Southern countries resisted a perceived "co-optation" of Southern-led development cooperation by traditional development actors eager to make Southern actors comply with existing ODA standards, including committing to existing funding targets and measurement tools. After years of successive "measurement battles" (Waisbich, 2022), more recent efforts seem better attuned to these concerns about making sure that SDG measurements and metrics, such as TOSSD, are reflective of the diversity of contributions to development, in all its forms. Since the pandemic, new compromises have been achieved at the UN Inter-agency and Expert Group on SDG Indicators and within the TOSSD Task Force on measuring Southern flows, with greater support from a range of Southern countries, including previously reluctant ones. Meanwhile, at the Global Partnership for Effective Development Co-operation (GPEDC), attempts have been made to pilot voluntary monitoring frameworks for the effectiveness of SSC with the Partnership supporting Southern country-led efforts to assess their own cooperation (Haug & Taggart, 2024). Development Assistance Committee (DAC) donors at the OECD have also shown a willingness to work with Southern countries, expanding their engagement with Southern partners through TriCo and finding compromises on measuring Southern flows. These bridging efforts are important in an increasingly polarised international arena.

Southern flows, expertise and political leadership are no longer novel; their significance is now widely acknowledged by the international development community. Southern countries have innovated in poverty reduction efforts at home and revitalised global efforts at a time when many traditional donors are struggling to keep up with their commitments, including the 0.7 per cent ODA target. From China's BRI and the Global Development Initiative to the Brazilian-led G20, which backed the Global Alliance Against Hunger and Poverty, or to the many Southern-led UN-managed development funds, Southern contributions are now ripe to reach a new stage.

3 Finance, ideas and partnerships for development: understanding, valuing and diversifying Southern contributions amid the Triple Planetary Crisis

As the international community critically takes stock of the challenges and achievements from the past decade and plans for a new development decade – beyond the 2030 Agenda – SSC and TriCo have an important role to play. Here we focus on three key action-points: first, the need to understand and value Southern contributions with and beyond financial flows; second, the need for Southern partners to diversify their development cooperation, more clearly promoting the nexus between development and just ecological transitions; third, the need for major Southern partners to work on coordination and policy coherence, at home and abroad.

For nearly a decade, Southern countries have called for broader recognition of their contributions to global development extending beyond financial flows. Their efforts focus on mobilising Southern human and financial resources to address global challenges, fostering policy environments that allow synergies to emerge and brokering agreements across the North-South divide. The development cooperation and finance landscape, however, remains highly fragmented, with Northern and Southern, state and non-state actors often addressing similar issues with minimal coordination. This fragmentation poses less of a risk of competition than of duplication, hindering efforts to achieve the necessary scale and impact for meaningful transformation on the ground. Acknowledging this fragmentation does not imply advocating for harmonisation but instead emphasises the need for coordination and policy coherence. This requires stronger political will to bridge agendas, issues and forums, and to connect processes and initiatives. During its G20 Presidency, in 2024, Brazil demonstrated it understands the urge to connect some of these dots, launching a Global Alliance Against Hunger and Poverty to foster these synergies and counter a new rise in hunger across the world, including in higher-income countries (Constantine, Pomeroy, Shankland, & Waisbich, 2024). The Brazilian G20 Presidency also sought to bridge G20 agendas with existing efforts at the UN and beyond on climate and development financing, including through a roadmap to reform MDBs, known as the G20 Roadmap Towards Bigger, Better, and More Effective MDBs (G20 Brazil, 2024).

Today's global development landscape is one that requires bridging knowledge gaps and overcoming competition and mistrust. The lack of a standardised framework to measure Southern development flows remains a critical obstacle. Whereas traditional aid models rely on established metrics, Southern-led initiatives are often voluntary and experimental, making comprehensive data integration difficult. Nonetheless, growing experimentation with measuring (quantifying and assessing) SSC and TriCo by a range of Southern partners and UN agencies over the last decade has played a vital role in enhancing understanding and fostering more effective cooperation, aiming at more, better and more effective SSC and TriCo initiatives, including from environmental and debt-sustainability perspectives.

At the same time, tensions in global development politics further complicate progress. Southern countries continue to express frustration over the developed world's failure to fulfil historical aid and climate commitments, compounded by the expectation that they should shoulder an increasing share of global responsibilities. Southern countries are contributing in their own ways, and shaming large Southern countries for not doing enough when developed nations fail to meet agreed upon targets is both unjust and counterproductive. It is unrealistic to expect Southern countries (even G20 members with the largest economies) to accept committing to financial targets at this point. Instead, self-determined voluntary commitments seem to be the way forward. The most recent round of climate negotiations in Baku points to a growing readiness of Southern players (from Colombia, Brazil and Barbados to Kenya and China) to keep working towards finding consensus across the North-South divide, to lead by

example at home and to increase voluntary contributions if others (especially in the developed world) do as well (Carbon Brief, 2024).

The challenge here is to innovate and diversify SSC and TriCo to better serve the challenges of a current troubled world and the development imperatives amid the Triple Planetary Crisis. As the climate emergency continues to impact on the prospects of humanity, Southern contributions to development cooperation and finance in the next decade must strive for greater synergies with climate financing and the need for just ecological transitions (UNCTAD, 2022). Big and small countries in the South are championing initiatives related to debt for nature and climate deals, new funds to protect tropical forests and new proposals for taxing the super-rich. In the last decade, climate-related South-South flows increased within the portfolio of SSC champions, namely China and India, and more recently Brazil. OECD data also shows small but growing volumes of climate related TriCo commitments involving DAC donors: from $56,000 in 2016 to $67 million in 2021 (OECD & IsDB, 2023). But the urgency requires Southern partners to give more centrality to the climate-nature-development nexus and advance towards a new generation of initiatives that have this agenda at their heart. This is where innovation must take place in the coming decade. This includes introducing and scaling-up South-South climate-proof development initiatives and boosting and/or reforming existing financing instruments – including trust funds and development banks – to better serve the imperatives of just and sustainable transitions in the years to come.

4 Conclusion

This paper argues that SSC and TriCo can contribute towards strengthening development finance in both quantitative and qualitative terms. These modalities will not replace other sources of development flows (including ODA, other financial flows, remittances and taxation), but they are important contributions to the landscape. Southern-led flows (in all their forms) have increased and consolidated in the past decade, and those behind them should now aim for more ambitious impact, in line with the world’s current developmental challenges. As the world meets at FfD4 in Seville to discuss a renewed global financing framework, Southern partners must univocally show their commitment to multilateralism and collective action as well as their support for multi-stakeholder collaboration and engagement. They should also show readiness to diversify their cooperation strategies and aim for greater synergy and policy coherence across their exchanges, including by bridging their climate and development financing efforts.

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How the FfD process should promote a better alignment of financial markets with sustainability goals

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Abstract

The financial markets continue to provide significant amounts of capital for socially and environmentally harmful investments. At the same time, financing for the investments that are necessary to achieve sustainability goals is lacking. Over the past 10 years, several private and public initiatives have attempted to change this misalignment. Their aim has been to design and implement an appropriate global architecture for sustainable finance. Among other things, regulators have mandated new sustainability disclosures from financial market participants and companies in the real economy, and they have developed sustainable finance taxonomies that define which economic activities should be considered sustainable. So far, however, there is no evidence that these initiatives have led to a large-scale redirection of capital flows. The international interconnectedness of financial markets requires a coordinated approach by the key actors in this area, including national governments, regulators and international financial institutions (IFIs). The financing for development (FfD) process offers an opportunity to promote a common understanding and facilitate decisive political action. As part of the FfD process, governments should in particular agree to: 1) enhance transparency on the sustainability impact of investments and 2) improve incentives to redirect capital flows; in order to attain these goals, 3) comprehensive and coherent policy frameworks are required that are internationally interoperable and at the same time take regional and national circumstances into consideration.

1 Introduction

Financial markets are still financing socially and ecologically harmful investments on a large scale. For instance, in 2024, global investments in fossil fuels amounted to more than $1 trillion (IEA, 2024, p. 4). At the same time, the investments necessary for a just transition to a sustainable world economy are lacking. Financial markets are thus clearly not aligned with the goals of the 2030 Agenda, the Paris Agreement or the FfD process.

The reasons for investment decisions in favour of unsustainable projects lie, first, in a mismatch between the short-term profit-maximising interests of investors and the long-term investment and development needs of society. Second, financial market players usually do not take negative or positive externalities into account. Third, there are significant data gaps and therefore a lack of transparency on sustainability risks, making it difficult to integrate sustainability factors into financial decisions.

In the last decade, numerous private and public initiatives have aimed to change this situation by designing and implementing a global architecture for sustainable finance. Regulators have, among others, mandated new sustainability disclosures by financial market actors and real economy enterprises, introduced requirements for the management of sustainability risks and developed sustainable finance taxonomies that define what economic activities should count as sustainable. In the same vein, financial market participants developed dedicated sustainable financial products, such as green bonds and sustainable equity funds, which should allow investors to invest in sustainable economic activities. So far, however, these initiatives apparently have not led to a large-scale redirection of capital flows.

2 The role of the FfD process for sustainable finance

Due to the international interconnectedness of financial markets, it is important for key actors in this area, such as national governments and regulators, and the IFIs, to follow a coordinated approach. The FfD process provides opportunities to foster a common understanding and facilitate determined policy action. As an inclusive United Nations process, FfD4 allows the countries that are usually not at the table of the institutions that govern international financial markets to raise their voices.

To a minor extent, the Addis Ababa Action Agenda (AAAA) (2015) already reflects the potentially important role of the FfD process for sustainability on financial markets, and it includes a commitment to "endeavour to design policies, including capital market regulations where appropriate, that promote incentives along the investment chain that are aligned with long-term performance and sustainability indicators" (DESA, 2015, p. 19). However, the AAAA's language on sustainable finance is limited to short and rather general passages. FfD4 should thus achieve a more ambitious and detailed agreement on financial market governance measures that promote sustainability goals. In the remainder of this paper, we discuss how the FfD process could facilitate policy measures to: 1) improve transparency on the sustainability impacts of investments and 2) increase incentives to redirect capital flows towards more sustainable economic activities; in addition, we argue that to achieve these goals, 3) comprehensive and coherent policy frameworks are necessary that are internationally interoperable while taking regional and national circumstances into account.

2.1 Improving transparency

So far, many policies aiming at a better alignment of financial markets with sustainability goals have focussed on improving the institutions and practices that collect and transmit information on the sustainability impacts of investments between market participants, such as reporting practices, sustainable finance taxonomies and sustainability rating agencies. Creating transparency in this context means providing clear and concise data in a publicly accessible way that shows to what extent a company's operations are consistent with sustainability goals. Transparency to potential investors about the environmental and social impacts of an investment is one prerequisite for all measures that aim to better align financial markets with sustainability goals. Only if financial market participants have access to the relevant data, are they able to direct capital flows to more sustainable projects. In the past, financial market participants were not able to easily determine the sustainability impacts of investments.

Some jurisdictions have made progress in recent years in developing governance frameworks that aim to increase transparency on the sustainability impacts of investments. For instance, sustainability reporting practices have expanded strongly, and more than 25 countries have implemented sustainable finance taxonomies (Cabrera, Youngeun Shin, & Hinojosa, 2022; Stolowy & Paugam, 2018). However, many of these regulations and practices are still in an early stage of implementation, and their practical usability and impact need to be further evaluated. In addition, in some jurisdictions, sustainable finance initiatives are currently facing a backlash. For instance, in the United States, efforts to better consider environmental, social and governance (ESG) factors in financial decision-making are frequently attacked from the conservative side as part of a "woke agenda" that allegedly hurts the interests of investors. In the European Union (EU), the resistance against the additional bureaucratic burden that reporting obligations place on market participants is increasing.

Against this background, governments should:

- *Commit to ambitious policy measures*. Due to the current backlash, it is key that the FfD Outcome document includes a strong commitment to implementing (or further developing) ambitious governance measures to increase the collection and transmission of sustainability information on financial markets. This includes not only reporting obligations and sustainable finance taxonomies but also regulations of risk assessments, standards and labels for sustainable financial products, such as green bonds, regulations of financial advice, and regulations of sustainability rating agencies and ordinary credit rating agencies. Concerns about missing expertise – in particular in countries in which financial market participants have fewer experiences with sustainability reporting – should be met with the provision of supporting services and capacity-building measures of national, multilateral and bilateral actors instead of watering down policies.

- *Create transparency on "dirty" investments*. Many existing initiatives focus on creating the transparency of activities that make a positive contribution to sustainability goals to spur investments in these sectors. However, for the socio-ecological transformation, it might be even more important that investments in harmful economic activities are stopped. In addition, transparency on "dirty" investments is also important to allow financial market participants to properly manage transition risks, and thereby reduce systemic risks associated with stranded assets. In this respect, the introduction of "dirty" taxonomies that provide criteria for economic activities which need to be phased out might be helpful (as a complement to the existing taxonomies that usually only define what activities are particularly green). These "dirty" taxonomies could be connected with obligations for financial market participants to disclose their investments in these activities. The FfD process should be used to achieve a commitment of governments to implement such regulations in their own jurisdictions.

2.2 Changing incentives

However, ample evidence shows that creating transparency alone will not translate into the large-scale shift in capital flows that is necessary (Ameli, Drummond, Bisaro, Grubb, & Chenet, 2020; Christophers, 2019). Although some investors might prefer sustainable investments for ethical reasons, a redirection of capital of the required amount will require a change in financial incentives. To a large extent, these incentives will have to be created by policy measures directed at the real economy. Carbon pricing or regulations on pollution alters the risk-profitability profile of economic projects and affects incentives for investors. If investors see credible steps in the direction of more ambitious policies in this area, they might take the future impact of these policies into account already in today's investment decisions and avoid lock-in effects.

At the same time, to some extent, financial market policies can also be used to change incentives. For instance, credit-guiding policies could be used to influence the credit granting practices of banks (Kedward, Gabor, & Ryan-Collins, 2022); financial supervisors could use mandatory prudential transition plans to force banks to assess and appropriately address sustainability risks (Dikau, Robins, Smoleńska, van't Klooster, & Volz, 2024); capital gains taxes might be differentiated according to the sustainability impacts of investments; and public institutions (e.g. development banks, public pension funds, etc.) can change incentives when acting as investors. In addition, a financial transaction tax as an instrument to reduce short-termism in financial markets should be returned to the international agenda. The FfD process should renew the momentum for more active intervention by public institutions in financial markets along these lines. Besides governments, central banks (Dikau & Volz, 2021), financial market supervisors and development banks are key actors in this respect.

The FfD process should thus facilitate a common understanding on the following points:

- *Consider sustainable finance policies as complementary (and not substitutable) to sustainability policies directed at the real economy*. Measures to improve transparency on financial markets will arguable only lead to a large-scale shift in capital flows if non-sustainable business models in the real economy become financially non-viable. Sustainable finance policies should thus never be seen as substitutes for far-reaching sustainability policies that directly address the real economy.

- *Engage more actively in financial markets to change incentives.* Public institutions such as regulators, central banks and development banks should use the entire toolbox of financial market policies (e.g. credit guidance policies, prudential supervision, etc.) for a more active public steering of financial markets in redirecting capital towards sustainable economic activities.

2.3 Implementing coherent and internationally interoperable policy frameworks

Many complementary and well-coordinated policy measures are necessary to create transparency on the sustainability impacts of investments and set incentives for more sustainable investments. For instance, sustainable finance taxonomies can remain of little relevance if they are not connected to disclosure obligations that force market participants to use the taxonomies (Hilbrich et al., 2024). In addition, the sequence in which policy measures are introduced is important because some sustainable finance policies only function well if other policies are already in place. For instance, a clear definition of sustainable economic activities – as provided for by sustainable finance taxonomies – should be used in designing standards for sustainable financial instruments. Governments should thus develop and follow sustainable finance strategies that lay out a coherent framework of individual measures and a clear timeline of policies to be implemented in the coming years.

Besides the coherence of governance measures within one jurisdiction, for many sustainable finance policies it is also important to design them in an interoperable manner with the policies of other jurisdictions. Due to the internationally interrelated nature of financial markets, the current coexistence of numerous sustainable finance regulations and taxonomies increases transaction costs (related to multiple reporting obligations, information costs in understanding the meaning of different labels and taxonomies, etc.). This issue can be attenuated if different frameworks are designed in an interoperable manner in the sense that sustainability data and assessments can be transferred from one framework to the other with ease. Utilising comparable structures such as similar metrics, industry classification systems and templates can be helpful in this respect (Berensmann, 2024b). Designing sustainable finance policies in an interoperable manner is in the interests of individual countries because it might facilitate foreign investments.

However, a number of challenges are involved in harmonising sustainable finance strategies related to different national circumstances, for instance with respect to: 1) the structure of financial markets, including the relative importance of capital markets versus bank financing and the role of international capital, 2) the overall industry structure and the main sustainability challenges of a country and 3) other national regulations and sustainability goals that sustainable finance policies should be aligned to (Berensmann, 2024a, 2024b; DESA & IPSF, 2021). Despite the advantages of harmonised frameworks, it is thus also important to take national circumstances into account.

The FfD process should promote policy solutions that enhance the interoperability of sustainable finance policies such as sustainable finance taxonomies in spite of this tension:

- *Develop common principles*. Common principles for sustainable finance taxonomies and other policies – including reporting standards or standards for specific financial instruments such as sustainable bonds – could provide guidance to individual countries in designing interoperable policies (Berensmann, 2024b). For instance, agreements on common metrics for measuring certain sustainability impacts could improve the comparability of data and enable market participants to meet disclosure obligations in different jurisdictions with limited additional costs. However, the principles should leave enough room to adapt policies to regional and national circumstances. Discussions about such principles could be brought forward by existing initiatives and fora such as the UN Development Programme Sustainable Finance Hub (which, among other things, serves as secretariat to the G20 Sustainable Finance Working Group); the Sustainable Banking and Finance Network (SBFN) hosted by the International Finance Corporation (IFC); and the International Platform on Sustainable Finance initiated by the EU. To ensure that agreements do justice to the diversity of national circumstances, principles must be developed in an inclusive process.

- *Establish an international recognition mechanism.* Mutual recognition of sustainable finance taxonomies and other sustainable finance standards could help to avoid the negative implications of the co-existence of different frameworks, while at the same time allowing for policies that are adapted to national circumstances. For instance, investments that have been shown to be sustainable according to one jurisdiction’s taxonomy could be automatically considered to be in line with another jurisdiction’s taxonomy. Nevertheless, the recognition of taxonomies and standards established in other jurisdictions should not result in a reduction of the level of ambition; only frameworks with a comparable level of ambition (shown, for instance, by their adherence to common principles) should be recognised as equivalent (Berensmann, 2024b).

3 Conclusion

An appropriate global architecture for sustainable finance could be a potent lever for a successful transformation of the economy towards sustainability. A coordinated approach of the relevant governance actors in this area would be beneficial because financial flows cross national borders, and many financial market participants are active in several countries. As the only international process on financing questions in which all countries can participate, the FfD process provides a unique platform to promote a common understanding and facilitate decisive political action on sustainable finance. As part of the FfD process, governments should agree on two points in particular. First, governance actors should continue to take action to increase transparency on the sustainability impacts of investments, including on impacts that are environmentally or socially harmful. However, transparency alone will not lead to a redirection of capital flows at the scale needed. Second, governance actors should thus use the entire toolbox of public interventions to set incentives for more sustainable investments and actively steer financial markets onto a more sustainable path. This requires policy frameworks that are comprehensive, coherent and internationally interoperable, while taking into account regional and national circumstances.

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The role of the private sector in the post-2030 agenda

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Abstract

The role of the private sector has advanced in differentiated ways in the diverse international agendas, but this has not been the case in the financing development agenda, where it has been present since its inception. With the proximity of the Fourth International Conference on Financing for Development (FfD4), this paper reviews how the private sector has evolved and been included in this agenda, and it identifies challenges for this actor to contribute to the Sustainable Development Goals, and about its inclusion beyond the 2030 Agenda. This analysis focuses on the potential and contributions of the private sector for development.

1 The private sector in the financing for development conferences

The private sector (PS) on the financing development agenda was part of a process at the end of last century and the beginning of this one. Various factors converged, among which were those that have been identified by different authors: the privatisation process and market liberalisation of the late 20th century; a new architecture of cooperation development with a multistakeholder approach; the need for more financial resources for a new development agenda such as the Millennium Development Goals; and the "fatigue of aid" due to the challenge of meeting the 0.7 per cent commitment for official development assistance (ODA) (Nelson, 2004; Pérez-Pineda, 2017; Severino & Ray, 2009, 2010). Some of the milestones and initiatives are part of the current framework of governance for private-sector engagement (PSE) on the international agendas. These include the human rights agenda, the aid and development effectiveness agenda, the development finance agenda, and different initiatives from the United Nations (UN), such as the Global Compact and the Kampala Principles from the Global Partnership for Effective Development Co-operation (GPEDC), in which PS is a key actor and partner of development.[17]

Regarding the evolution of the PS in the three conferences that preceded FfD4, the following key aspects can be identified. The Monterrey conference (2002) underlined the importance of five of its six areas of action[18] and the participation of the PS to contribute towards development, the eradication of poverty and the promotion of sustainable development in key areas such as: mobilising domestic and international financial resources, such as foreign direct investment and

17 The literature (Byiers & Rosengren, 2012; Kindornay & Reilly-King, 2013; OECD, 2007) analyses PSE in two approaches. The first is how to develop the PS, that is, to contribute towards strengthening and creating an environment conducive to it, such as private-sector development. The second is focused on how the PS can contribute directly to development, called "private sector for development". The analysis here relies on the last approach.

18 Originally, the "Monterrey Consensus" relied on six areas of action: a) mobilising domestic financial resources for development, b) mobilising international resources for development: foreign direct investment and other private flows, c) international trade for development, d) international finance and technical cooperation, e) external debt and f) addressing systemic issues. In the Addis Ababa Action Agenda, a seventh area would be included: science, technology, innovation and capacity-building, reframed as "international development cooperation" and "debt and debt sustainability".

other private flows, along with the need to foster favourable environments and regulatory frameworks for private-sector development; the consideration of trade as an engine of development to support or complement ODA efforts; and sustainable debt to mobilise private investment. The conference highlighted the relevance of multi-stakeholder approaches and encouraged public–private partnerships as innovative aspects and as part of a broader global partnership for development.

The Second International Conference, held in Doha in 2008, arrived in the context of the international financial crisis – a very different scenario than in 2002. For that reason, the focus was not on financing development but on contributing towards solutions to the crisis. Aside from the follow-up conference at Monterrey and the review process, the Doha Declaration called for a more active role of the state with better regulations and fair tax and trade systems, due to rising concerns about climate change issues and the need to mobilise private resources for it. In addition to maintaining interest in innovative schemes and public–private alliances, the notion of a socially responsible PS was raised.

Finally, the third conference in Addis Ababa (2015) would be a turning point in laying the foundations for the implementation of the 2030 Agenda with a global framework for financing sustainable development after 2015 and the Addis Ababa Action Agenda. This process would be very influential in how the Sustainable Development Goals (SDGs) would be financed around two key issues – a “Global Alliance for Sustainable Development” and “Policy Coherence”, as embodied in SDG 17. Again the PS would be a relevant actor in traditional areas such as trade and investment, but it called for broader alliances with multiple actors and other PS entities such as small and medium-sized enterprises and philanthropic organisations.

In general, the context behind the evolution of FfD conferences would be conditioned by a couple of key aspects concerning expectations about PSE: first, by the rise of foreign direct investment flows worldwide, well above ODA flows; second, by the three major crises of the last decades (financial in 2008 and 2015, and health in 2020). Despite that, the following achievements from Monterrey to Addis Ababa can be highlighted concerning PSE: 1) having a holistic approach to FfD, 2) the recognition of the relevance of different types of financial flows: public, private, national and international, 3) the relevance of public policies and regulations to guarantee success in the use of these resources, 4) having a global alliance as a framework for action and integrating different actors such as the PS, and 5) considerations about the impacts of policies on key dimensions of sustainable development – economic, social and environmental – thereby opening the door to not only encourage private investment and the quality of that investment, but linking it with green financing and climate financing, among other things (policy coherence) (UNIATF, 2016, p. 3).

2 Challenges for the PS towards FfD4

Key documents for the upcoming FfD4, such as the “Financing for Sustainable Development Report 2024” and the “elements paper” (DESA, 2024; UNIATF, 2024), make it clear that one of the priorities and main challenges which would face the international community and actors involved has to do with the question of how to accelerate and comply with the 2030 Agenda and the SDGs as well as, for instance, how to keep mobilising the financial resources for it?

Regarding the last question and the PS, most of the concerns about the agenda of FfD4, as reflected in the diverse analyses of the “elements paper”, seem to focus more on private-sector development than on the private sector for development (Katoka & Barchiche, 2024; Li, Danish,

& Chowdhary, 2024; Zattler, 2024).[19] This can be seen in at least two points of the “elements” document. For example, for the three points covered in “Domestic and international private business and financing”, the first two focus on private-sector development aspects such as the *development of financial markets for greater access to financing*, and *how to facilitate the scaling-up of long-term investment* in the SDGs, focusing on financial instruments *to boost foreign direct investment*, *single capital or the provision of guarantees*. And while this section includes a third point – *aligning private businesses with SDG financing* – which is closely related to the private sector for development, the emphasis is again on financing, such as for improving impact assessment, transparency and the relevance of the Integrated National Financing Framework. In other areas where a closer link with the private sector for development approach would be expected, such as “international cooperation for development”, something similar happens: The emphasis is not on the role of the PS to impact development, but on reforms to international aid regimes and their international, bilateral, multilateral and institutional structure to foster the PS.

Despite the above focus, PSE in development and global agendas has been of interest to scholars (Byiers & Rosengren, 2012; DI Bella, Grant, Kindornay, & TIssot, 2013; Estrup, 2009; Kindornay & Reilly-King, 2013; OECD, 2007; Perez-Pineda & Wehrmann, 2021; Schulpen & Gibbon, 2002) and development agencies,[20] which contribute to a better understanding of the private sector for development, and focus on other issues beyond financing that are relevant for the PS and partners. Among those opportunity areas are: defining and identifying forms of collaboration with the PS; developing protocols or strategies of collaboration between development agencies and the PS; examining concrete case studies on the relevance of public–private partnerships, corporate social responsibility, inclusive business, philanthropy, private standards, guides and principles of collaboration with the PS; and developing strategies to align activities with the Millennium Development Goals, as with the SDGs, among other things. It can be observed that FfD4 is not incorporating these dimensions of PSE into its different tools to complement financial flows.

Despite the advancements and setbacks of the SDGs,[21] PSE is framed in the 2030 Agenda – in SDG 17, targets 17.16 and 17.17; particularly in SDG 12: responsible consumption and production; SDG 8: decent work and economic growth; SDG 9: industry, innovation and infrastructure; and SDG 7: affordable and clean energy – and transversally linked directly or indirectly to all the goals. The five years remaining up until 2030 suggest that more can be done. More especially needs to be done on PSE and the private sector for development, in line with FfD4, to warranty the quality of either investment, credits or any financial resource that can contribute towards financing projects or any initiative aligned with the new financial challenges and commitments, such as climate change, global public goods, global health and global biodiversity, among others, in consideration of the following points:

1. The achievement of sustainable development certainly demands more growth. However, in many cases, this implies a correlation with increased pollution, waste and consumption. In a context that simultaneously demands reducing, reusing and recycling, the PS and world

19 Most authors and documents emphasise how to improve the mobilisation of financial resources as risk mitigation. However, at least two opportunity areas on private-sector development connected with private sector for development are needed, such as: the need to strength the business ecosystems and innovation through venture or seed capital, for example, as well as reinforce global governance and international standards to foster SSC and TriCo as social or small projects aligned with the SDGs, as covered here.

20 The list of authors and relevant agencies that have studied this issue is broad. Particularly around PSE the work of Di Bella et al. (2013) has been a key reference. The development agencies that can be identified are the UN, OECD, UNDP, UNIDO, UNCTAD, GIZ, DFID, JICA, AECID, USAID and CIDA, among others.

21 In this respect, see the annual SDG progress reports (DESA, s.a.).

economies are facing such a paradox. Sustainable technologies and corporate tools such as corporate social responsibility and environmental, social and governance (ESG) reporting need to be used more frequently in global value chains and by all economies.[22]

2. New business models such as B corps ("Benefit for all"), inclusive business, social enterprises, social investment and the use of social entrepreneurs are all potential catalysts for achieving the SDGs. However, there is significant confusion around such terminology and the way these models can be implemented. This is the result of a lack of national and international policies that are designed to promote such alternatives.[23] As a result, more efforts to encourage PSE in these types of sustainable business models are necessary.

3. The use of norms, standards and regulations is another possible complementary tool to enhance Southern action among the public and private sectors that is aligned with the 2030 Agenda, and not only with regard to financial management and transparency. Apart from the UN Global Compact, what are still needed are initiatives that serve the sets of guidelines, codes of conduct and principles coming from multilateral and private institutions (ILO, OECD, ITC, WBCSD, ISO, etc.), initiatives that embrace economic, social and environmental concerns in global value chains. Thus, the work that the UN Forum on Sustainability Standards is conducting along this line of inquiry is relevant.[24]

In today's context, even if there have been relevant advances on principles, inclusion and the creation of strategies designed to include the PS in international cooperation and development, the issue still seems to be particularly sensitive when governments collaborate with the PS beyond tax preferences, philanthropy, public–private partnerships and corporate social responsibility. A last opportunity area, for instance, could be to bridge FfD4 with the Buenos Aires Plan of Action (BAPA+40) concerning South-South Cooperation (SSC) and Triangular Cooperation (TriCo), and with the "Pact of the Future" on key issues such as digitalisation, governance, peace and security, and youth.

3 The way forward

Considering the above, three key challenges to PSE – but mostly for the private sector for development – in the context of FfD4 can be outlined. Firstly, considering the classic role of the PS as an exclusively financial function and the focus of FfD4 on private-sector development initiatives, it is still necessary to create new forms and metrics of development finance – such as blended finance, global funds, green bonds, social investment, impact investment, innovative finance and metrics such as Total Official Support for Sustainable Development (TOSSD) – to put value into private sector for development strategies and create incentives for mobilising private resources for development.

Secondly, the linking of emerging topics where the PS plays a key role – such as the management of global and regional public goods, the health sector, the role of technology, digitalisation, the 4.0 revolution, the outer space economy, the delocalisation of companies, the problems associated with global supply chains, and the scarcity of jobs and unstable job markets

22 The European Initiative on Corporate Sustainability and Due Diligence (Directive 2024/1760) is an important step.

23 For instance, from a Southern perspective, a recent study supported by IDRC, UNDP, SEGIB and AECID in 2021 tries to shed light on B corps and advancements on their regulation in Ibero-America, a model that has appealed to the international community (IDRC-CRDI, 2021).

24 The flagship reports of UNFSS are helpful to understand better the relevance and effectiveness of voluntary or private sustainability standards (UNFSS, 2022).

– with SSC and TriCo initiatives is imperative. It is necessary to consider diverse ways to collaborate with the PS through different actors, sectors and forms of cooperation.

Thirdly, there must be the incorporation and consideration not only of a new set of norms (as referred to earlier), but also frameworks and business models related to PSE and the private sector for development that are relevant for global cooperation, as well as other modalities that cohere with the development agenda, such as voluntary sustainability standards, B corps (or business with purpose), due diligence, the economy of common good, the circular economy and the doughnut economy.

In short, taking action and sacrificing short-term economic benefits in exchange for social and environmental benefits – considering that an adequate environment for institutional arrangements under a multistakeholder approach exists – is key for the coming FfD conference to improve PSE in the upcoming agenda, with a focus on a new governance framework that enhances the positive impact of the PS for development.

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SDG 1 up to and beyond 2030: financing the end of global poverty

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Abstract

Financing for development (FfD) and the Sustainable Development Goals (SDGs) are intimately intertwined, in the sense that any estimates related to FfD tend take the SDGs as the "thing" that needs to be financed. If the SDGs are not met (which all projections point to), then what should be the post-2030 agenda and what are the financing questions? This paper makes the case for ending global poverty as the minimum aspiration for any post-2030 framework. We then consider the FfD issues, including associated costs and financing questions, and make recommendations on official development assistance (ODA), debt relief and taxation. Given the current outlook for ODA, more emphasis is needed on debt relief and taxation.

1 Introduction

The SDGs are very much off track, and this is especially so for the headline poverty targets (Yusuf, Anna, Komarulzaman, & Sumner, 2024). Even if SDG 1 – ending extreme monetary poverty – was to be met, a billion people would likely live just above the extreme poverty level ($2.15 per day) and still live in absolute poverty ($3.65 per day) in 2030. That is the optimistic scenario.

Here is the more realistic scenario: SDG 1 will not be met, and 700 million people will live in extreme poverty in 2030, and another billion people will live just above the extreme poverty level (Sumner & Yusuf, 2024a, 2024b). In short, there will be 1.7 billion people in absolute poverty in total, and another billion will live just above the poverty level and at risk of falling back into poverty.

Given this data, ending global poverty ought to be the minimum aspiration for any post-2030 framework. Considering the state of multilateral politics, it may be one of the more politically feasible post-2030 options.

2 Policy options for post-2030

There are a set of policy options for post-2030 that have been mentioned by Sumner and Klingebiel (2024): notably, an extension of the existing SDGs to 2040, or even 2050. This is politically difficult but possible, given all the countries that have negotiated and signed up to the SDGs. A second option is a new "poly-crisis" framed around human security, which may better fit the context for the next generation. This would be politically tough to negotiate in such a short period of time before 2030 (the SDGs took three to four years and a different, more favourable context for multilateralism). The third option, most likely, is no framework.

There is a fourth option: a global framework that has a minimum aspiration to end poverty, defined as SDG 1 has been. Why? The forthcoming decade and beyond are likely to be shaped by persistent stressors and abrupt, severe disruptions that are associated with climate change and other significant global meta-trends. From a financial perspective, addressing poverty and

reducing inequalities at present would be more economically sensible than tackling these issues subsequently amidst climate-related pressures and shocks. This approach also serves as preparation for living on a warmer planet. Ending poverty would be the minimum aspiration, and then upon that other aspirations could be built. The approach would be to take SDG 1 and extend to the World Bank's monetary threshold of $3.65 per day (2017 purchasing power parity). This would be at a level where the correlation between non-monetary poverty – poor education, ill-health and undernutrition – is much stronger than at the $2.15 extreme poverty line (see Sumner & Yusuf, 2024b).

3 Where is global poverty situated?

It is often noted that global poverty is increasingly concentrated in sub-Saharan Africa and fragile and conflict-affected states (FCAS) (e.g. Hoogeveen, Mistiaen, & Wu, 2024; Tetteh Baah & Lakner, 2023). Although global poverty is becoming more concentrated in FCAS and sub-Saharan Africa, particularly when utilising the extreme poverty line, there is another distinction that warrants further attention. This is the division of global poverty – between those nations where ODA is financially significant compared to domestic resources, and those where it is not. This shift is not attributable to population movement, but rather to the increasing importance of domestic resources as economies develop. Indeed, over the past two to three decades, two intersecting bifurcations have emerged within the Global South: first, the commonly mentioned differentiation between FCAS and non-FCAS countries. The LIC-MIC (low-income country, middle-income country) binary is not always appropriate, as some FCAS are MICs. Second, a less emphasised distinction is between countries where ODA is crucial for government functioning and basic service delivery, and those where ODA is largely irrelevant due to increasing domestic resources (see Table 1). Traditional ODA addresses two of the four contexts, those in which ODA is significant.

Table 1: Different types of country contexts for post-2030 development cooperation

	Significance of ODA relative to recipient's GNI	
	High	**Low**
FCAS	I *High ODA/GNI & FCAS*	III *Low ODA/GNI & FCAS*
Non-FCAS	II *High ODA/GNI & non-FCAS*	IV *Low ODA/GNI & non-FCAS*

Note: ODA/GNI = net ODA received as a percentage of gross national income (GNI)

Source: Sumner and Yusuf (2024b)

4 FfD and SDG 1: How much finance is needed to end global poverty?

Estimating the cost of eradicating global poverty necessitates calculating the monetised poverty gap. Although the poverty headcount enumerates individuals in poverty, it fails to quantify their distance from the poverty threshold. The poverty gap and its global distribution effectively represent the annual monetised poverty gap, which constitutes the minimum expenditure required to elevate those below the poverty line to the equivalent consumption level. The estimated annual cost to eliminate extreme monetary poverty ($2.15 poverty line) was just under $70 billion in 2022, equating to 0.07 per cent of global GNI, or 0.12 per cent of the GNI of Organisation for Economic Co-operation and Development (OECD) high-income countries (HICs). For absolute monetary poverty ($3.65 poverty line), the figure increases to almost $325 billion annually, or 0.32 per cent of the global GNI and 0.56 per cent of the OECD HICs' GNI.

Regarding the global distribution of these costs currently, extreme monetary poverty expenses are equally distributed between FCAS and non-FCAS nations. (see Table 2). It is important to note that these figures represent only the monetised poverty gap and exclude the administrative costs of fund distribution schemes. However, many countries already have cash transfer systems in place, potentially reducing the expenses of establishing new mechanisms. Furthermore, transfer schemes are just a starting point, all countries need economic development and jobs in the short-to-medium term. If the funds were found to end poverty, the likely multiplier effects for growth and jobs would be substantial, and thus a basis for future prosperity.

Table 2: Annual cost of ending poverty (monetised poverty gap), 2022

	$2.15 poverty line	$3.65 poverty line
Global annual cost, current $bn	67.1	324.1
Global cost as a share of:		
Global GNI (%)	0.07	0.32
OECD HIC GNI (%)	0.12	0.56
OECD GNI (%)	0.11	0.54
Share of annual cost by country type:		
Low ODA/GNI & FCAS (%)	14.6	13.9
Low ODA/GNI & non-FCAS (%)	25.5	41.1
High ODA/GNI & FCAS (%)	35.5	25.9
High ODA/GNI & non-FCAS (%)	24.4	19.0

Source: Sumner and Yusuf (2024b); estimates based on World Bank PiP database (World Bank, 2024); FCAS = World Bank list

5 Recommendations: an FfD agenda for SDG 1 up to and beyond 2030

The eradication of extreme and absolute poverty on a global scale is financially feasible, when considering the global GNI or the GNI of OECD HICs. With reference to FfD it relates to several areas. We recommend prioritising actions on ODA, debt servicing and taxation/tax evasion.

First, let us consider ODA. Although the current outlook appears bleak, the annual ODA expenditure reached just under $225 billion in 2023 (equivalent to 0.37 per cent of OECD members' GNI), with $31 billion allocated to in-donor refugee costs, leaving $193 billion for other ODA purposes (OECD, 2024). In other words, the annual cost of eliminating extreme monetary poverty is approximately one-third of the global annual ODA expenditure in 2023. Thus, we recommend that DAC member should commit to implementing the redirecting of ODA towards countries with high extreme poverty. If OECD member nations fulfilled their commitment of 0.7 per cent of GNI in ODA, it would have resulted in $425 billion in 2023, significantly surpassing the cost of eliminating absolute poverty, including likely logistical costs. In light of the current context of ODA cuts, we recommend the FfD process and Outcome document should include a renewed commitment to the 0.7 target by DAC members.

Second, action is needed to reduce debt servicing. ODA is currently being "offset" by large debt servicing in the world's poorest countries. The United Nations (UNDP, 2024) reported that the average LIC and MIC has net interest payments of more than 8 per cent of government revenue in 2024. More than half of LICs are either already in debt distress or are at high risk of debt distress (IMF, 2024b). In short, post-pandemic debt service is draining national governments of resources that could be used for ending poverty. We thus recommend the FfD process and Outcome document call for the IMF and World Bank to establish an "HIPC 2.0" initiative on their share of the debt. The Heavily Indebted Poor Countries (HIPC) Initiative and the related Multilateral Debt Relief Initiative programmes of the mid-1990s onwards led to debt relief of $100 billion for the poorest countries at that time (IMF, 2024a), and a renewed case may be made as part of an "SDG-compact".

Third, there is taxation. Ending global poverty is also about tax systems. Total global annual tax losses are estimated by Cobham and Palansky (2024) and Cobham et al. (2024) using data from the OECD's Corporate Tax Statistics and the Locational Banking Statistics from the Bank for International Settlements. Global tax losses are estimated at just under $500 billion per year. Of this total amount, two-thirds is accounted for with profit-shifting by international companies, and one-third with offshore wealth holding by high net worth individuals. In terms of the Global South, $80 billion of tax losses is estimated for Asia, $40 billion for Latin America and $8 billion in Africa. We recommend that the FfD process and Outcome document focus on the set of policies needed to minimise tax losses from profit-shifting by companies and offshore wealth holdings. Specifically, the FfD process and Outcome document should give a strong endorsement of the negotiations towards a UN framework convention on tax cooperation to set new rules and standards for corporate and individual taxation. Countries of the Global South can also accelerate taxation reform by leveraging digitalization, with potential assistance from developed countries in capacity-building and technology transfer.

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From solidarity to cooperation: a moment of confusion

Nikolai Hegertun, Austen Davis & Einar Tornes

Abstract

The growing inclusion of global public goods (GPGs) under development finance is moving development cooperation from redistribution in solidarity with countries that are undergoing development, to investing in common goods. The risk is a reallocation of scarce funds for poverty reduction to an inadequate and illegitimate contribution to GPGs. This emergent and implicit change in practice is now causing confusion and obstacles to effective collective action.

1 Introduction

In a world of increasing policy interdependence and seemingly co-evolving crises, the safety and progress of one country is increasingly linked to the progress of others. The spill-over effects from GPGs lie at the heart of this. We consider GPGs to be things, mechanisms or conditions that are non-excludable and non-rival. In theory, GPGs affect all countries, whether these are *natural commons*, which we need to protect (climate, nature, eco-systems), or “man-made” GPGs that we need to produce (knowledge, technology, peace, financial stability). Although the relationship between GPGs and development has proven hard to settle with precision, the urgent need to tackle the negative spill-over effects arising from our inability to secure GPGs is a growing concern within development: After decades of thinking about development cooperation as contributing to progressive national modernisation projects, transnational challenges force us to reflect on the sustained *regression* of development – as amply illustrated by the COVID-19 pandemic. As such, pro-active *provision* of GPGs is fast becoming a significant feature of development finance, although whether this shift is appropriate remains debated. As the share of official development assistance (ODA) allocated to GPGs keeps growing, the number of questions regarding the opportunity costs and the diversion of ODA away from investment in direct poverty reduction are growing.[25] In sum, the management of transnational issues are slowly, but surely assuming centre-stage in development cooperation.

GPGs suffer from the dual failure of markets and states (Kaul, Blondin, & Nahtigal, 2016).[26] Collective action must grow out of an imperative to act, often spurred on by a sense of crisis and the realisation that solitary action is ineffective. Historically, however, we have seen that such collective eagerness often dies down quickly (Reinhart & Rogoff, 2009). Relying on ODA to tackle global challenges is far from sufficient, as the adequate provision of GPGs represents systemic constraints that go far beyond instruments such as ODA.[27] We still see ODA as the

25 According to the OECD bilateral ODA allocated to provision of GPGs grew from 37 per cent in the period 2007-11 to around 60 per cent in the years 2017-21 (Elgar et al., 2023).

26 The utility of different global public goods will vary across countries – and different countries will have varying abilities to support access to the goods and/or opportunity costs of investment will differ (Kaul et al., 2016). Additionally, the benefits of many GPGs are realised in the future, and the direct benefit to individual people, countries, and regions, may be hard to quantify. This complicates responsibility and burden-sharing and the construction of effective collective action.

27 According to Bhattacharya, Dooley, Kharas and Taylor (2022), additional financing needed to deliver on the most important goals for human development and climate is estimated to be $1.3 trillion in 2025, and $3.5 trillion annually by 2030 (excl. China). In comparison, 1 per cent of GNI from the G20 (this includes the EU) would raise around $992 billion in 2025 and $1,248 billion in 2030 (Development Initiatives, 2023).

"equity" branch of international spending, not the "efficiency" branch designed to provide public goods and effective resource allocation. Nevertheless, as development budgets become increasingly coterminous, new commitments – such as the recent $300 billion pledge adopted at the 29th Conference of the Parties (COP29) – risk reallocating scarce ODA funds from the world's poorest countries to slightly wealthier ones, despite the marginal impact this will have on addressing climate change (Kenny, 2021). Given the significant transboundary spill-over effects of GPGs, we risk turning the traditional ODA model on its head, as rich countries increasingly are "recipients" of ODA, and domestic actions and policies overlap with "international development".[28] The financing for development process is a crucial stock take for exactly these questions.

2 GPGs and development

As we transition from traditional constructs of ODA involving *redistribution/transfers* in solidarity with populations and countries that are undergoing development, to *investing* in common goods – or in some cases "paying" some countries (usually "developing countries") to manage their unique resources on behalf of all (e.g. protecting rainforests in Brazil and Indonesia as a GPG "service") – we have entered a phase of confusion regarding the mandate, management and operations of ODA.

The negative "spill-in" from the world's failure to provide GPGs (the non-excludable "consumption" of GPGs) is increasingly urgent for poor countries. Yet, efforts to tackle and manage these challenges are not necessarily contributing to GPG "provision", as they have predominantly local/national effects. Nor are these efforts necessarily the most effective for human development, even if there are synergies between adaptation, resilience and development (Bill & Melinda Gates Foundation, 2024).[29] Indeed, climate change and climate disasters inflict greater and more lasting macroeconomic costs in fragile states (Jaramillo et al., 2023). As such, there is an emerging convergence of interests in GPG provision across country income groups. But the allocation of resources does not factor into the opportunity costs or the incentives of others to determine effective priorities for investment. Nor does it compare modalities of aid provision to what is needed for effective GPG provision. To actually *provide* GPGs or contribute to global reductions in transboundary spill-over, we are required to assess policy interdependence between countries and working across silos and all relevant levers. And although the "provision" of GPGs is also "public", much of the "solution" to crucial GPGs lies outside of the world's poorest and least developed countries (e.g. vaccine innovation in the United States, the European Union (EU), Russia and China).

One way forward is to introduce a conceptual and principal distinction (Figure 1) between attempts to provide GPGs, and efforts to mitigate the negative consequences of global challenges (or the under-provision of GPGs) locally.[30] Ideally, GPG provision should fall more firmly onto those countries whose policies need to be corrected for negative spill-over effects or have the resources to act in accordance with the complexities required. Rather than aggregating

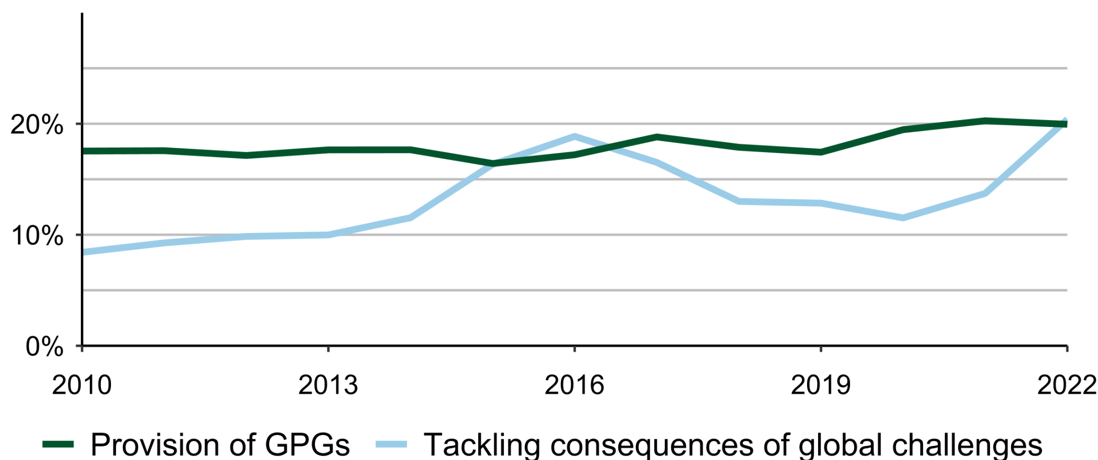
28 This is partly why some scholars have tried to introduce the concept of "development-related GPGs" (Birdsall & Diofasi, 2015). Robin Davies has used the term "aidable" GPGs that "benefit defined groups of countries or people rather than the whole world" (Davies, 2017).

29 These efforts may take the form of crisis response but are usually more long-term (e.g. resilient agriculture, economic diversification, systems of social safety nets, health system strengthening).

30 We often see concepts such as "global challenges" and "GPGs" lumped together, as if efforts to deal with them are also of a similar nature and that they need to be addressed globally. TOSSD inter alia defines "global challenges" as "issues or concerns that bring disutility on a global scale and that need to be addressed globally" (TOSSD, 2022, p. 7).

a “coalition of the willing”, as in classic development practice, we need to have “fair share”[31] calculations determining the suggested contribution of all nations, inclusive governance for all who contribute, and accountability to encourage full participation and expose free riders.

Figure 1: ODA for provision of GPGs and efforts for tackling consequences of global challenges, shown as shares of gross bilateral ODA from the OECD/DAC



Source: Authors

Figure 1 provides an estimate of the share of bilateral ODA from OECD DAC countries allocated to “GPG provision” and “tackling global challenges”,[32] with the latter investment having more immediate effects locally. Although the share of bilateral ODA spent on GPG provision has remained relatively stable since 2010, the share allocated to tackling global challenges has increased significantly from a lower level.

3 Global health: a case in point

Global health illustrates the evolution of practice in response to emerging contexts and challenges (see Table 1). In the early part of the 20th century, aid was not used to address systemic problems – this was considered infeasible. Aid was typically used to support hospitals with a limited set of public health objectives or specific public health campaigns. Following widespread de-colonisation, efforts were redirected in support of client regimes to provide health care at national scale. Given the lack of resources and institutional capacity – comprehensive primary health care (PHC) was promoted to harness the collective energy of the people into ideological alignment towards liberation and self-reliance, yet it provided very limited access to medicines and technology. With the human immunodeficiency virus (HIV), a collective sense of crisis fuelled more collective responses, focusing on individual rights and adapting technology to the problem/context. A wave of institutional innovation accompanied these efforts to manage investment, disbursement and accountability. Global programmes proved highly effective but were limited to a few diseases. Pressure mounted to act on other legitimate health needs and

31 Fair share calculations attempt to develop a mutually acceptable algorithm based on salient features such as population, GDP, contribution to a problem, etc. They have been tried in response to the COVID-19 pandemic (ACT-A) and other instruments such as the Climate Fund.

32 In total, ODA spending on “global challenges” and “provision of GPGs” increased from approximately 25 per cent of bilateral ODA in 2010 to more than 40 per cent in 2022. This shift underscores the increasing “global nature” of the issues and problems ODA-funded projects address. For method and description of data, trends and sectors, see Github (s.a.).

further contribute to national health systems – in order to provide both external and internal value. Transnational challenges rose in tandem with population growth, under-regulated mass use of medical technologies and climate/environmental change. Anti-microbial resistance (AMR), pandemic risk and pollution now exert substantial health impacts and massive economic damage.

Table 1: The changing role of ODA across different eras and phases of development among recipient countries

50s-60s	60s-80s	90s-00s	10-20s	20s- ?
Limited inter-ventions and targeted public health campaigns	Low-cost national health systems – PHC	HIV	Increasing range of health challenges	Trans-national risks
Donor-defined – symbolic	Cold War client state legitimisation	Human rights and technological access	UHC – national health systems + non-communicable diseases (NCDs)	GPGs and risk management
Under-scaled to have any mass public health impact – inhibited by low institutional capacity	Initially ideological – accepting "appropriate technology" and limited ambition	Re-engineer new technology for application in low-resource settings	Re-nationalising health respon-sibility and investing in platforms with multiple benefits – NCDs, pandemics	New collective action for PPR, AMR, climate change/ environmental challenges and health

Source: Authors; note: UHC = universal health care; PPR = pandemic prevention, preparedness and response

The purpose of this narrative is to illustrate there have been significant changes in the practice of ODA since its inception. The factors that defined these shifts go beyond donor country interests and include the political economy and institutional capabilities of recipient states, international platforms to organise collective action, new technology and the concern for regional – and even global – instability. In all these previous shifts, we have witnessed changes in financing as well as institutional innovation and renewal. This is yet to happen for more recent shifts, in particular for GPGs, where we seem stuck in pre-2015 investment modalities.

4 Towards a new architecture for collective action partnerships?

Development cooperation is struggling to effectively respond to both country-based development and global challenges. The effective provision of GPGs requires more than funding. The inclusion of an increasingly wide array of global issues into the ODA agenda (e.g. climate change, AMR, pandemic preparedness, migration, pollution, biodiversity) has catalysed a crisis of effectiveness and legitimacy. GPG provision is not corresponding to taxpayers' perceptions of why they support ODA, and it is increasingly being questioned by the "recipient side". Over time this will undermine the trust needed for genuine collective action. The cooperation required for action on GPGs does not necessarily arise from a concern for others, or pro-social norms, it is more squarely based in a concern for critical threats to self-interest. It is not an issue of transfer

but rather of cooperation. The governance of and the management of global transnational issues need to be much more inclusive and reciprocal, whilst retaining decisiveness, effectiveness and accountability. Going forward we must construct an architecture that is in keeping with the institutional, financial and political requirements of GPG provision. A refreshed international public finance regime must establish agreed priorities – collective ambition must be scaled to the resources available and the institutional limits to action. Incentives for action must be rebalanced – with the distinction between donors and recipients radically challenged.

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The European Union's emerging position for FfD4: Means (of implementation) to what end?

Niels Keijzer

Abstract

As they are collectively the largest providers of official development assistance (ODA) worldwide, the European Union (EU) and its member states have traditionally strongly engaged in the UN Conference on Financing for Development (FfD). Yet, despite their collective ODA footprint, they do not act as a single and concerted actor on the full range of policy issues covered by the FfD process, for instance in the crucial area of taxation. Moreover, the EU's 27 member states strongly differ in their own bilateral ODA investments, while the EU is putting increasing emphasis on its own policy initiatives to the detriment of promoting collective action. This contribution discusses the nature of the EU as an actor in the FfD process and the key policy shifts relevant to this. It subsequently compares its engagement at the 2015 FfD conference in Addis Ababa, followed by an analysis of the EU's contribution to the elements paper of the Fourth International Conference on Financing for Development (FfD4). Based on this, it concludes that the EU is well-advised to use the coming months to place a stronger focus on "beyond-ODA issues" during FfD4, as well as to live up to its own ambition of being open to discussing some of its own recent policy decisions and initiatives, which its partners consider to have a strong emphasis on their national and regional development efforts.

1 Introduction

On 24 June 2024, the annual report to European Heads of State and Government on the EU's development assistance targets noted: "The EU and its Member States accounted for 42 per cent of global ODA in 2022 and 2023, and have confirmed their leadership on the global agenda for sustainable development" (Council of the European Union, 2024, p. 2).

Under the Treaty on European Union, the EU and its 27 member states have a shared competence for development policy. That is to say that they conduct their own independent development policies and operations, yet also commit to closely coordinating and promoting complementarity between their priorities and actions (Koch, Keijzer, & Friesen, 2024). The Treaty also requires the EU to take account of the objectives of development cooperation while implementing policies that are likely to affect developing countries, a commitment referred to as promoting "policy coherence". Yet a different article in the same Treaty states that the EU's development policy is shaped in the context of the principles and objectives of the EU's external action (i.e. foreign policy), with this consistency requirement causing tension with the promotion of an independent development policy.

Hence, although the EU and its member states present themselves as the largest providers of ODA in the world, in contrast to other areas such as trade and agricultural policy, they are legally speaking not a single actor in development cooperation – even though politically they aspire to be so. In the case of the issues negotiated during the FfD conferences, one notable area to illustrate this concerns taxation, which remains a member state competence with EU-level legislation in the area requiring unanimous adoption by the 27 member states.

In the specific area of ODA – likely to be highlighted by the EU in view of its high collective contribution (i.e. EU and the 27 member states combined) – another challenge concerns the

difference between the member states. Whereas Germany was the second-largest ODA provider worldwide in 2023 with a total budget of $33.9 billion, 15 EU member states reported bilateral ODA budgets that totalled less than $1 billion in the same year – nine of which were less than $200 million.

Another important contextual element to consider are the planned or ongoing budget cuts in several of the larger EU member states that were traditionally among the largest providers of ODA, including France, Belgium, the Netherlands and Sweden. Under the assumption that the EU's ODA budget will be comparatively harder to cut – as it will be renegotiated during the coming years as part of the discussions on the Union's overarching and historically rather path-dependent 2028-2024 multiannual financial framework – this situation will over time increase the relative importance of the EU's ODA budget vis-à-vis that of the member states (Keijzer, 2020). In parallel, and intensifying since the pandemic, the EU and its member states have been increasingly promoting joint decision-making and operations under the initiatives of Team Europe and the Global Gateway.[33] These new initiatives have contributed to more favourable perceptions and prospects for closer cooperation among European development cooperation actors (Koch et al., 2024). At the same time, there are questions as to how the EU's more interest-driven (or "geopolitical") approach to development cooperation is perceived by its partners and influences their views and expectations concerning the EU's contribution to global development (Keijzer, 2024).

With the new European Commission having been voted into office by the European Parliament on 27 November 2024, the EU is well-placed to prepare and promote a strong and unified common position in advance of and during FfD4. This paper briefly looks back at the EU's positioning during the Third International Conference on Financing for Development (FfD3) and considers the prospects for the EU's involvement and influence during the coming months.

2 The EU and FfD3 in Addis Ababa

Less than a month before the start of FfD3 on 13 July 2015, the EU adopted a 22-page common position (Council of the European Union, 2015). This common position was closely linked to the EU's engagement in and objectives for what at that time was still referred to as the "post-2015 agenda" and subsequently resulted in the 2030 Agenda for Sustainable Development and its 17 Sustainable Development Goals. The position was also supported and guided by a detailed Commission proposal on the substantive ideas that the EU could and would promote during this conference (Council of the European Union, 2015, p. 3). In that sense, the EU made dedicated efforts to align its vision for the UN's global development agenda to its priorities for the agenda's means of implementation.

Notably, the EU position set out its own priorities for a universal agenda and an integrated approach to implementation, which – in addition to the need for differentiation in taking the agenda forward – became enshrined as key principles in the 2030 Agenda (EU, 2015).[34] The EU in part promoted this vision based on its own understanding of the promotion of sustainable

33 The Global Gateway is an EU initiative that was launched in December 2021 with the aim to promote and increase European infrastructure investment worldwide. The initiative is implemented through a so-called Team Europe approach, which refers to conscious efforts by different European actors to work together for a common purpose (Keijzer, 2024).

34 These three principles reflected five earlier principles that the EU put forward in 2014 for the ensuing negotiations of the next global development agenda: universality, shared responsibility, mutual accountability, consideration of respective capabilities, and a multi-stakeholder approach. In addition, the EU promoted a number of rights-based substantive priorities during these negotiations (Council of the European Union, 2015, p. 3).

development, but also as part of its agenda to promote a further involvement in realising this agenda by non-OECD states – notably those in the BRICS group. Under the latter aim, it also referred to the development of the then emerging Total Official Support for Sustainable Development (TOSSD) measure (Council of the European Union, 2015, p. 13). The combination of this substantive agenda and willingness to contribute towards providing the means of implementation were likely factors as to why the resulting 2030 Agenda reflected quite a few of the EU's priorities. As a central message, the EU argued: "The success of the Post-2015 Agenda requires policy coherence at all levels" (Council of the European Union, 2015, p. 7).

3 Prospects for an effective EU engagement in FfD4

Although the EU and its member states submitted joint inputs to the consultation process for the elements paper of the UN Department of Economic and Social Affairs with key issues to be discussed (and hopefully agreed) at FfD4, several larger member states separately submitted their own inputs bilaterally. Moreover, the EU's joint input was accompanied with a considerable disclaimer on the first page, which read "throughout this document the use of 'EU' does not prejudge whether the competence lies with 'EU', the 'EU and its Member States' or exclusively with 'Member States'. The current document equally does not prejudge the European Commission proposal for the next multiannual financial framework" (EU, 2024, p. 1). This footnote indicates that insufficient investment was made to develop a strong and binding common input by the EU and its member states. One reason for this was that the EU at that time was "inbetween Commissions", with transition teams preparing the Commissioners Designate for their confirmation hearings in the European Parliament that would start in the week of 4 November 2024. During this period – and particularly with ideas for the next EU multiannual financial framework remaining to be formulated – the EU was not in a position to commit long-term to the ideas presented and developed in the document.

On substance, the EU made a notable decision to emphasise its own policy priorities such as promoting good governance and democracy support in its contribution to the elements paper. It also mixed announcements of its own policy actions – notably the Global Gateway initiative – with its ideas of what should be discussed and agreed at FfD4. Another reason for the notable difference with its FfD3 position is due to the timing of the 2025 conference itself: Whereas the Addis Ababa conference in 2015 preceded and was guided by a new policy vision for an emerging post-2015 global development framework, the FfD4 conference is instead characterised by the lack of clarity on what should succeed or how one could revitalise the global development agenda. In contrast to its 2015 position, the EU's contribution to the elements paper mentions policy coherence among a list of other key topics as being fundamentally important (EU, 2024), thus giving it considerably less emphasis, despite the considerable focus on its own sustainable development policy measures, including on deforestation and carbon taxation.

Bearing the aforementioned limitations of the EU legislative cycle in mind, the document nonetheless provides a complete overview of various issues and does not shy away from key issues beyond financing, including illicit financial flows, reform of multilateral development banks, debt sustainability and trade. On funding, and similar to its 2015 position with different wording (see Council of the European Union, 2015, p. 4), it called on "more countries that have the capacity to do so" to join the 0.7 per cent GNI target (EU, 2024, p. 6) and also expresses support for the further development of the TOSSD measure.

4 Conclusion

This brief overview and comparison of the EU's engagement in FfD3 and its emerging position for FfD4 show a considerable degree of continuity in the EU's discourse and priorities. However, what has changed profoundly is the EU's own view and identity as a global development actor that is now pursuing a more interest-driven approach to cooperation and placing central emphasis on its own policy initiatives – notably the Global Gateway. What has also changed is the EU itself: Although previously comprising a mix of the EU and several large bilateral donors in the run-up to FfD3 – including the United Kingdom – the EU itself is a rather different actor in 2024. It is collectively (EU and member states) still the largest provider of ODA in the world, yet by its own admission that position is now less crucial for promoting sustainable development than it was in 2015. Moreover, it appears that the number of objectives being pursued by the EU under its development policy – including a stronger focus on crisis response (Koch et al., 2024) – has expanded faster than its available means with which to realise them. Key drivers in the EU's "crisisification" of its ODA have been considerable levels of migration-related expenditure, as well as in more recent years the exponentially growing levels of funding for Ukraine.

Hence, for this reason, it is much less the financing issues (including Global Gateway), but more the systemic issues and enabling policies for global development that the EU needs to engage and focus upon – as expected by its partners – during the upcoming preparations for FfD4. This includes its own sustainable development policy measures, which have been politicised by its partners in recent months, particularly by having been adopted in a unilateral manner. Although seemingly contradictory for a UN conference about financing, during the coming months the EU should put its policy positions where its mouth is so as to contribute towards a successful conference and outcome.

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Reform of the multilateral development banks: how FfD4 can support it

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Abstract

Multilateral development banks (MDBs) have been key actors in financing sustainable development for the past eight decades. Recent reform efforts, mainly led by the G20 countries, have expanded MDBs' mandates to include addressing global challenges such as climate change and boosting their financing capacity while also calling on them to work as a system. The Fourth International Conference on Financing for Development (FfD4) – being a more inclusive and universally representative UN-led process than the G20 – should endorse and advocate for the acceleration of ongoing MDB reforms. In particular, the FfD4 Outcome document should emphasise that, in light of the expanded mandates of the MDBs, failure to achieve a comparable augmentation of their financial capabilities could result in an undesirable but inevitable redirection of resources, from poverty alleviation and shared prosperity to predominantly addressing global challenges such as climate change. In this regard, FfD4 can play a pivotal role in advancing reforms in two key areas for boosting MDB capital that have seen limited progress thus far: leveraging callable capital and utilising special drawing rights (SDRs) to invest in hybrid capital vehicles designed by MDBs.

1 Introduction

Since the establishment of the World Bank Group's International Bank for Reconstruction and Development (IBRD) in 1944, MDBs such as the World Bank (WB) and the regional development banks have provided substantial financial, technical and policy support for developing countries. Although the initial focus of the IBRD was on financing post–Second World War European reconstruction, the International Development Association (IDA) – another arm of the WB – was established in 1960 with a specific mandate to assist low-income countries (LICs). Over time, a number of additional regional and specialised MDBs have been established, including the Asian Development Bank (ADB), the African Development Bank (AfDB), and the Inter-American Development Bank (IDB). Recently, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank – initially referred to as the BRICS bank – were founded apparently in response to the few voting rights and low shares of emerging markets and developing economies in traditional MDBs. Collectively, major MDBs disbursed approximately $96 billion in loans in 2022 alone (UN, 2024).

Several factors make MDBs key actors in financing for sustainable development. First, MDBs with specific mandates for LICs, such as the IDA, have played a crucial role in reaching vulnerable and marginalised populations (G20, 2024). They have been major sources of concessional finance for LICs and have helped finance projects in key sectors, including health, education and infrastructure. Second, MDBs are also a crucial source of low-interest capital for middle-income countries. Thanks to their high credit ratings, MDBs can access capital from the commercial market at significantly lower interest rates than those available to most developing countries. Furthermore, MDB loans typically have longer time horizons than those of private investors and are more likely to be used to finance the riskier projects that the private sector avoids (Gurara, Presbitero, & Sarmiento, 2020). Third, MDBs are vital providers of countercyclical support in times of crisis (UN, 2024). This is evidenced by the significant increase in MDB financing following the 2008 global financial crisis and the 2020 COVID-19

pandemic (DESA, 2024). Fourth, over the course of several decades, MDBs have gained extensive experience in implementing development projects and engaging with both donor and beneficiary countries. MDBs – in particular regional development banks – possess a more comprehensive understanding of the macroeconomic and political realities as well as structural challenges of developing countries and regions than typical bilateral donor countries, which often focus on specific sectors and countries. Fifth, MDBs have been instrumental in knowledge creation, not only through their country- and sector-specific reports and flagship publications, but also through their dedicated research departments.

2 What major reforms have been enacted recently?

Over the past four years, the MDB landscape has undergone arguably its most consequential reform process in its history. The latest reform of the MDBs was initiated by the G20, particularly during the Italian presidency in 2021. This saw the formation of a panel of experts tasked with reviewing the MDBs' capital adequacy frameworks (IEG, 2022). Although the initial focus of the Independent Expert Group (IEG) report was on strengthening the MDBs' financing capacity, it soon expanded to cover other, wider areas of reform, including broadening the MDBs' mandates and improving their operations and impact. As the G20 countries are the largest shareholders in the MDBs, several of the recommendations have already been adopted by their respective governing bodies. This G20-led MDB reform process has culminated in a comprehensive "G20 Roadmap towards Better, Bigger and More Effective MDBs" (G20, 2024) during the Brazilian G20 presidency. In the following, we summarise three key areas of reform where significant progress has been made, and explore how FfD4 could accelerate progress in areas that have lagged behind.

3 Expanding the MDBs' mandates

Climate change and the COVID-19 pandemic have significantly hindered – and in some cases reversed – progress towards the SDGs, highlighting that development targets cannot be met without simultaneously addressing global challenges such as climate change. This has spurred calls for MDBs to expand their mandates to explicitly include global challenges and the provision of global public goods. In response, MDBs such as the WB and ADB have broadened their mandates from poverty reduction and economic growth to also tackle climate change, biodiversity loss and pandemic preparedness. Notably, in October 2023, the Board of Governors of the WB updated its mission from "end extreme poverty and boost shared prosperity" to "end extreme poverty and boost shared prosperity on a livable planet". This expanded mission is meant to allow the WB to address the intertwined challenges "aggressively, simultaneously, and comprehensively" (Banga, 2023). This also requires enhanced financing power, substantial reforms in the WB's operations, and the need to leverage the power of the private sector and work with other MDBs as a system.

4 Increasing the financing power of MDBs

As the gap for financing sustainable development continues to widen due to the multiple crises, and because MDBs need additional financing power to fulfil their expanded mandates, it was inevitable that they would need to scale-up their financing power. In this regard, the IEG (2022) made several recommendations that set in motion a series of reforms that have unlocked hundreds of billions of dollars in new lending capacity for the MDBs over a decade. In particular, the IEG (2022) argued that the MDBs had generally been too risk-averse and could take on

more risk without jeopardising their prized (often AAA) credit ratings. The WB, for example, was able to free up $40 billion over 10 years simply by reducing its capital-to-loan ratio from 20 per cent to 19 per cent in 2023. This ratio was further reduced to 18 per cent in October 2024, potentially unlocking a similar amount of financing capacity.

The other widely adopted IEG (2022) recommendation is the use of hybrid capital – a subordinated debt instrument with loss-absorbing characteristics similar to equity, but without voting rights. Germany's landmark investment of €305 million in hybrid capital at the WB is expected to unlock a financing capacity of $2-2.5 billion. Portfolio guarantees – whereby shareholders step in if countries cannot repay their loans – have also unlocked significant financing capacity. For example, the US government announced a portfolio guarantee to the WB in 2023 that could generate about $25 billion in new IBRD lending over a decade. In sum, estimates show that all these innovative mechanisms have so far boosted MDBs' financing capacity by up to $357 billion over the next decade (G20, 2024).

5 Coordination among MDBs

One prominent reform initiative that has received considerable attention is the call for MDBs to operate as a system, as underscored by the recent G20 roadmap for MDBs (G20, 2024). This approach involves the continuous and coordinated refinement of MDB operations, policies and strategies. Central to this reform is a shift from a project-based to a programmatic approach that facilitates the integrated delivery of financing, policy support and technical assistance. The roadmap also calls upon MDBs to strengthen coordination and collaboration at both the institutional and country levels. This encompasses, for instance, conducting joint analyses, diagnostics, and impact monitoring through country-owned and country-led platforms, as well as the development of and participation in co-financing platforms.

6 Governance structure of MDBs: the untouched topic in the recent MDB reform

MDB governance structures often reflect the power imbalances that existed at the time of their establishment. In many MDBs, a single member wields veto power over major policy decisions – for instance, the United States in the IBRD, IDB and the International Finance Corporation; China in the AIIB; and Saudi Arabia in the Islamic Development Bank. Developing countries – many of which were still under colonial rule when the IBRD was established – remain significantly underrepresented in most MDBs. This has led to repeated calls and commitments to enhance the voice and representation of developing countries in major MDBs. However, progress has lagged behind significant global shifts, including the rise of the Global South and other economic and geopolitical changes. Recent G20-led MDB reform efforts have largely sidestepped this contentious issue, seemingly to avoid impeding progress in areas with broader consensus.

7 What reforms can FfD4 support?

It is evident that the reform of the MDBs is already progressing at a rapid pace in numerous areas. Furthermore, other fora, such as the G20, and the Annual and Spring Meetings of the International Monetary Fund (IMF) and the WB, are exerting considerable political pressure to ensure the continuity of the reforms. However, it is important that FfD4 – as a more inclusive

and universally representative UN-led process – endorses and advocates for the acceleration of ongoing MDB reforms. The Outcome document should call for enhancing MDB financing power, operations and incentive structures to increase their accessibility, efficiency and effectiveness in responding to developing countries' needs as well as to address global and regional challenges. Furthermore, FfD4 should concentrate on reform areas where progress has been particularly slow and where there is significant potential for overcoming the deadlocks of some reform proposals by leveraging the political support for FfD4.

In particular, the FfD4 Outcome document should emphasise that, in light of the expanded mandates of the WB and other MDBs, failure to achieve a comparable augmentation of their financial capabilities could result in a redirection of resources from poverty alleviation and shared prosperity to predominantly addressing global challenges such as climate change. This concern was raised by stakeholders from multiple regions during the consultations on the WB reform process. Furthermore, this scenario would result in an inevitable shift towards middle-income (and even high-income) countries and the private sector, at the expense of low-income counterparts. In this regard, the FfD process can help with pushing forward two major sources for boosting MDBs' capital.

1. The IEG's (2022) call to tap into the potential of callable capital – a commitment by the MDBs' shareholders to provide additional funding in extreme situations – has not been tested yet. By broadening the terms and seeking clarity from credit agencies and shareholders on the procedures and mechanisms for callable capital, there is tremendous potential to enable MDBs to absorb more risk and expand lending capacity.

2. Another potential means of boosting MDBs' firepower is to use SDRs to buy a hybrid capital vehicle that is developed by MDBs. The SDR is an interest-bearing, international reserve asset created by the IMF in 1969 to help member countries in times of economic difficulty. Following the G20's pledge to channel SDRs worth $100 billion of its 2021 allocation to low-income and vulnerable middle-income countries, there have been calls to efficiently use some of these donations because MDBs can leverage them by a factor of three to six. The AfDB and IDB have proposed a mechanism that is structured as a hybrid capital instrument, which enables them to mobilise three to four times the value of the channelled SDRs. However, this proposal has faced significant legal and political challenges (Berensmann et al., 2024) and has yet to gain traction, as it requires a minimum of five countries with strong external positions to agree to channel their SDRs into the proposed mechanism. FfD4, and the preparatory processes, offer a key opportunity to garner sufficient political will to make this mechanism work.

Furthermore, FfD4 should call for reforming the outdated governance structure at the MDBs. It should emphasise the need for greater voice and representation for developing countries at the MDBs, as further delays in addressing governance and voting rights reforms risk undermining the trust and legitimacy not only of MDBs, but also of global economic governance as a whole.

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