Chapter I

Introduction and overview

1. Introduction

Financing for development is at a crossroads. The world is running out of time to achieve the Sustainable Development Goals (SDGs) and prevent catastrophic climate change. Only an urgent, large-scale and sustainable investment push can help us achieve these agendas. Despite efforts to advance development financing across the action areas of the financing for development agenda over the last two decades, countries are today faced with large unmet financing needs and a financial architecture unable to close these gaps in an ever more crisis-prone world. The gap between our development aspirations and the financing dedicated to meet them has never been so large.

The window to rescue the SDGs and prevent a climate catastrophe is still open but closing rapidly. Over the last several years, the world has contended with persistent pandemic-related uncertainties, ramped up geopolitical divides and war, and increasingly restrictive financing conditions—all of which represent direct challenges to the achievement of the SDGs. But the SDGs were off track even before this recent confluence of crises, with financing neither mobilized at the scale nor allocated at the terms necessary to achieve deep economic and societal transformation.

Financing challenges are one of the key reasons for slow progress and regression:

- **Financing challenges are at the heart of the current sustainable development crisis.** Unmet financing needs for the SDGs and climate action are estimated to be in the trillions of dollars. The needs are particularly acute in many developing countries: When the series of shocks and food and energy crises set back sustainable development around the world, a finance divide severely hampered many developing countries in responding aggressively; as a result, they saw larger and more persistent SDG regression. Globally, and despite commitments to the contrary, many actors, both public and private, still invest in brown activities and have not yet fully aligned their decision-making and financing allocations with the SDGs.
- **Today's tight financing conditions are exacerbating an investment crisis, hampering the urgent scaling up of sustainable development investments.** Tighter global financial conditions in a world awash with debt reduce fiscal space for many sovereigns, create high costs of capital for private investors, and contribute to a sluggish recovery of the global economy, with subpar growth and investment prospects.

A key to getting back on track lies in financing. Financing challenges have played a key role in creating the sustainable development crisis we face today. But financing can also play a role in turning our fortunes around. The United Nation's financing for development discussions can be a catalyst for change. In the spring of 2002, world leaders convened in Monterrey, Mexico, to "address the challenges of financing for development around the world, particularly in developing countries".[1] The Monterrey Consensus represented a historic breakthrough. It recognized the critical importance of mobilizing and effectively using financial resources, and enabling national and international economic conditions, to eradicate poverty and achieve sustainable development. It anchored discussions on financing and the international financial architecture in the development agenda. That link is now more important than ever, with a broader development agenda agreed in 2015—embodied in the 2030 Agenda for Sustainable Development and the Paris Agreement on climate change—laying out an ambitious but indispensable set of sustainable development objectives. At the same time, financing for development commitments were reaffirmed and updated in the Addis Ababa Action Agenda, which provided a global framework for financing sustainable development.

The Fourth International Conference on Financing for Development, to be held in Spain in mid-2025, provides a unique opportunity to commit to reforms of financing frameworks at all levels to close the gap between aspiration and financing. Today, the enabling environments for financing sustainable transformations are not in place. At the same time, the recognition that the world is running out of time has triggered a new commitment to financing reform by governments, the private sector and the international community. As daunting as the financing challenges are, there is at least a shared understanding that we must address them with urgency and ambition. Member States have acknowledged this urgency in discussions at the United Nations and beyond. They have given the Fourth International Conference on Financing for Development an ambitious mandate to address financing challenges "in the context of the urgent need to accelerate the implementation of the 2030 Agenda and the achievement of the SDGs and to support reform of the international financial architecture".[2]

The Inter-agency Task Force highlights four overarching questions that warrant the attention of Member States:

- **How can the conference help close the large financing and investment gaps, at scale and with urgency, and enhance the effectiveness of spending?** What is the package of reforms that can help to deliver the rapid scaling up of public and private investments in the SDGs, building on the Secretary-General's SDG Stimulus, and containing actions across the action areas: on tax, private investment and blended finance, concessional financing and development bank reform, and innovative financing instruments? And how can the conference help governments to do more on domestic resource mobilization and optimizing spending through growth- and revenue-enhancing reforms, to better allocate scarce resources while prioritizing the SDGs?
- **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?** Which international financial architecture reforms could enhance countries' resilience in a more crisis-prone world and enable access to financing on affordable terms and conditions? How can the international community align trade, investment and technology agreements and rules fully with sustainable development?
- **How can the conference help close credibility gaps and rebuild trust in the global partnership and multilateralism?** How can public and private actors reconcile misalignment between rhetoric and action and renew momentum for finally meeting long-standing commitments on concessional financing and global governance reform and fully aligning domestic and international policy frameworks and investment allocations with commitments to the SDGs?
- **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?** How can the ongoing rethinking of economic development paradigms, not least the relationship between States and markets in achieving sustainable transformations, inform new national and international financing policy frameworks for sustainable development?

To help address these questions, the 2024 Financing for Sustainable Development Report aims to support a productive and substantive preparatory process for the upcoming Fourth International Conference on Financing for Development. To this end, this overview chapter lays out the key financing challenges (section 2), the underlying drivers (section 3.1), and progress and gaps in implementation across the action areas, highlighting key findings from the rest of the report (section 3.2), before concluding (section 4). In section 5, the major institutional stakeholders of the FfD process and UN DESA share institutional perspectives on and expectations for the forthcoming Fourth Conference

2. The financing challenge today

The world is severely off track to achieve the SDGs by 2030. At the midpoint towards 2030, around half of the 140 SDG targets for which sufficient data is available deviate from the required path. This includes central commitments such as the eradication of extreme poverty; current projections estimate almost 600 million people will continue to live in extreme poverty in 2030, more than half of them women.[3] On a "business-as-usual" pathway, where social, economic and technological trends do not shift markedly from historical patterns, the SDGs as a whole would remain out of reach even in 2050.[4]

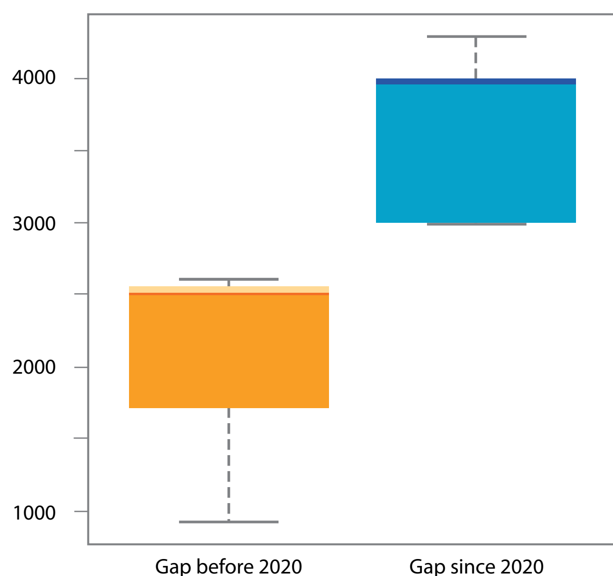
Progress is woefully insufficient on SDG 13, climate action. The year 2023 was the hottest year on record by a significant margin. Rapid and deep reductions in global greenhouse gas emissions would be needed this decade (a decline of 43 per cent compared to 2019 emissions) to keep temperature increases below 1.5 degrees Celsius;[5] instead, emissions from fossil use are expected to have reached a record high in 2023.[6]

Financing gaps

Financing gaps are large and growing. Achieving the large-scale transitions needed to avoid catastrophic climate change will require investments at an unprecedented scale. There have been various efforts, including from members of this Task Force, to estimate SDG financing and investment gaps. While they vary, the gaps found are inevitably very large, particularly for developing countries, ranging between $2.5 trillion and $4 trillion annually (figure 1.1).[7] Such gaps were already large before 2020, but they have since widened significantly, with the Organisation for Economic Co-operation and Development (OECD) Global Outlook estimating an increase in the financing gap of developing countries of 56 per cent.[8] The COVID-19 pandemic and subsequent shocks negatively impacted resources, including lost tax revenue from lower growth rates, further widened investment gaps and have added to financing needs. From a global perspective, financing gaps are largest in middle-income countries (MICs). However, relative to available resources and capacity to mobilize additional resources domestically, least developed countries (LDCs) and low-income countries (LICs) face the most significant gaps, with estimates ranging between around 15 per cent and 30 per cent of their respective GDP (for example, a recent assessment by the International Monetary Fund (IMF) found the financing gap to achieve significant progress toward five SDGs—education, health, water and sanitation, electricity, and roads—to amount to 16.1 per cent of the GDP of LDCs and other LIC by 2030).[9]

As high as financing gap estimates are, they pale in comparison to the costs of inaction. This is best understood for the climate-related SDGs (primarily SDGs 7 and 13, which account for a significant share

Figure I.1
Range of estimates of annual SDG financing gaps in developing countries
(Billions of United States dollars)



Source: Matzner and Steininger 2024.

of overall SDG financing needs) and the social and economic costs of climate change under business-as-usual scenarios. The cumulative additional economic and social costs incurred from climate change under a business-as-usual scenario through 2050 are estimated to be almost *five* times larger than the climate finance needed to limit temperature increases to 1.5 degrees Celsius.[10] Every dollar invested in risk reduction and prevention can save up to 15 dollars in post-disaster recovery efforts.[11] These costs will only increase the longer investments in climate action and resilience are delayed.

Finance divides

Developing countries are faced with significantly worse terms of access to both long-term and contingency financing, implying a finance divide (see the *Financing for Sustainable Development Report 2022*). In the current high interest rate environment, sovereign spreads (the difference between the yields paid by developing country issuers and United States Treasuries) have increased particularly strongly for developing country issuers below investment grade (see chapter III.E), increasing their reliance on concessional resources to abate overall financing costs. The implicit interest rate on the sovereign debt of LDCs and MICs is more than twice that of developed countries, on average (figure 1.2), reflecting sizeable country premia, driven both by domestic factors and the retrenchment of capital flows to these countries.

Higher sovereign borrowing costs are also mirrored in higher costs of capital for private investors. For example, costs of capital for comparable projects in the renewable energy sector have been estimated to be significantly (two to three times) higher in developing countries than in developed countries, with perceptions of macroeconomic risks, rather than project-specific risks, driving risk premia (see also chapter III.B).[12]

Many developing countries also have less access to contingency financing in times of need, constraining their ability to respond to and recover from shocks. Few developing countries have access to central bank swap lines, which have been the most effective instruments for crisis management in the past 15 years, providing urgent liquidity at almost no cost (see chapter III.F). At the same time, IMF financing is limited in volume. While Special Drawing Rights (SDRs) were effectively allocated in crisis periods, the mechanism for allocating SDRs in proportion to countries' IMF quota shares means that developing countries received only around one third of the 2021 SDR allocation. During the pandemic, many developed countries enacted massive fiscal stimuli to protect their economies and societies, supported by aggressive monetary policy. Most developing countries, especially LDCs, have been unable to respond at a comparable scale.

Weak enabling environments for sustainable development

The enabling environment is lacking from a macro and microeconomic perspective. Policy, regulatory and tax frameworks, while pursuing a wide range of policy objectives, also set incentives for private investors; currently, these are often not sufficiently aligned with the SDGs and climate action; public expenditure is also not fully aligned. Rapid transformations require enabling environments so that all actors align their actions, through appropriate regulatory and legal frameworks, fiscal systems and trade and investment agreements. Currently, public subsidies and private investment in fossil fuels are still very high, and public expenditure and tax systems do not completely comport with the SDGs, including SDG 5 on gender equality.

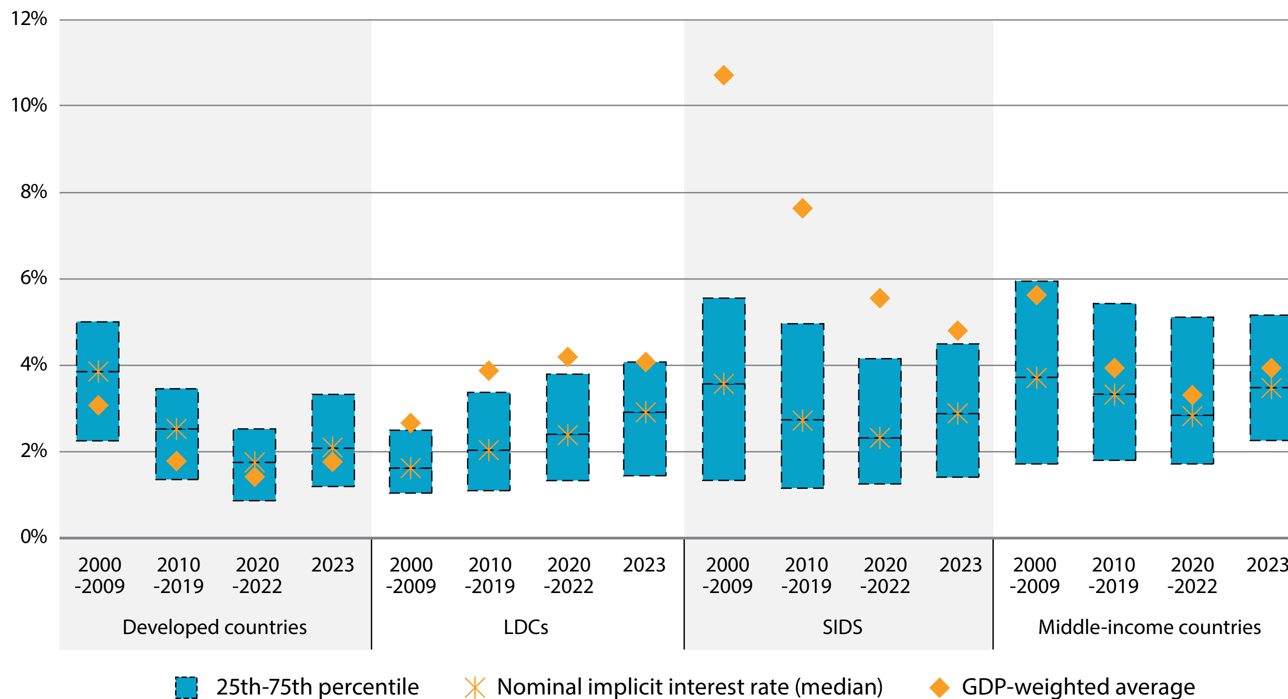
3. How did we get here?

Today's financing challenges are the result of a dramatically changing global landscape, with financing not keeping pace. Recent crises have revealed structural deficits and challenges that have arisen over longer time periods. Section 3 will briefly discuss the changing global context and broad underlying trends in the global economy that have shaped development finance decisions and outcomes over the last 20 years (section 3.1.) before reviewing the progress that has been achieved in the action areas of the financing for development outcomes within that rapidly evolving global context (section 3.2).

3.1 Underlying drivers and trends

A number of global trends and developments have significantly reshaped global development prospects and the development financing landscape. These include the rise in systemic risks, above all climate and disaster-related risks; a sea-change in global macroeconomic and macro-financial conditions; dramatic changes in the international division of labour and the pace of global economic integration; rising and entrenched income, wealth, gender and other forms of inequality; enormous technological change, with digitalization in particular affecting all financing areas; and growing risks of fragmentation in the global economy. Some trends have also created tremendous opportunities for development and financing progress. But in their totality, they have put national financing frameworks and the international financial architecture under severe stress.

Figure I.2
Implicit interest rates on sovereign debt, 2000 -2023
(Percentage)



Source: UN DESA calculations, based on IMF WEO data.

Rising systemic risks

Risks continue to accumulate and become more complex and systemic at a rate faster than our capacity to predict, reduce or prevent them—we live in an age of uncertainty. Together, these risks create a macro-environment that has challenged, and in many cases overwhelmed, policymakers' ability to respond (see the *Financing for Sustainable Development Report 2021*).

- **The climate crisis is omnipresent.** It not only weighs on sustainable development, particularly in vulnerable countries such as LDCs and small island developing States (SIDS),[13] but is also affecting financing: rising financing needs for investments in adaptation and mitigation, growing stresses on public and private balance sheets, and growing risks to financial sector and macroeconomic stability.
- **Disasters are becoming more frequent and intense, with losses, damages and recovery costs increasing.** Annual economic disaster damage is estimated at $173 billion between 2020 and 2023, up from $108 billion during the first decade of the century (see chapter II). By 2030, the world is projected to face 560 medium- to large-scale disasters per year.[14] Conflict and displacement persist. In 2022, a record 32.6 million disaster displacements were recorded, 41 per cent higher than the annual average of the past 10 years.[15]
- **The COVID-19 pandemic further underscored the dramatic impacts that global non-economic systemic risks can have on social and economic progress.** In addition to the loss of life, economic losses from the pandemic and subsequent global shocks have been staggeringly high, especially for vulnerable countries, translating into much larger SDG financing gaps. Cumulative output losses—calculated as the sum of the annual difference between pre-pandemic projections of GDP and actual GDP—amounted to around 40 per cent of the 2019 GDP in SIDS, and about 30 per cent in LDCs (see chapter II).
- **Systemic risks from economic and financial channels also remain elevated.** Financial globalization has contributed to capital flow volatility and exposed developing countries more directly to shocks and to spillover effects from monetary and financial policies in major developed countries (see chapter III.F). The 2008 world financial and economic crisis exemplifies the impacts that cross-border spillovers of financial instability can have on development prospects. Global factors such as global interest rates, risk aversion and uncertainty have become more important relative to idiosyncratic host country factors in determining cross-border capital flows.[16]

A more challenging global economic environment

Closing financing gaps has become more challenging in today's context of tight financing conditions and a weak global economy. The global macroeconomic context, more favourable in the early years of the new millennium, has become less benign over the last two decades, impeding countries' efforts to mobilize development financing.

A sluggish world economy has led to subdued growth prospects in developed and developing countries (see chapter II). Average growth rates have steadily declined over the last 25 years, and the 2020s are primed to become another lost decade for development (see

chapter II and figure 1.3). The world economy developed dynamically in the first decade of the new millennium on the back of rapid growth of large emerging economies, a commodities boom and other factors. The 2008 world financial and economic crisis proved to be an inflection point, with developed economies experiencing severe recessions and very slow recoveries. Developing countries initially demonstrated more resilience but experienced a significant slowdown in dynamism from around 2014. The COVID-19 pandemic then sent the world economy into a free fall, triggering the most severe global economic crisis in the past century.

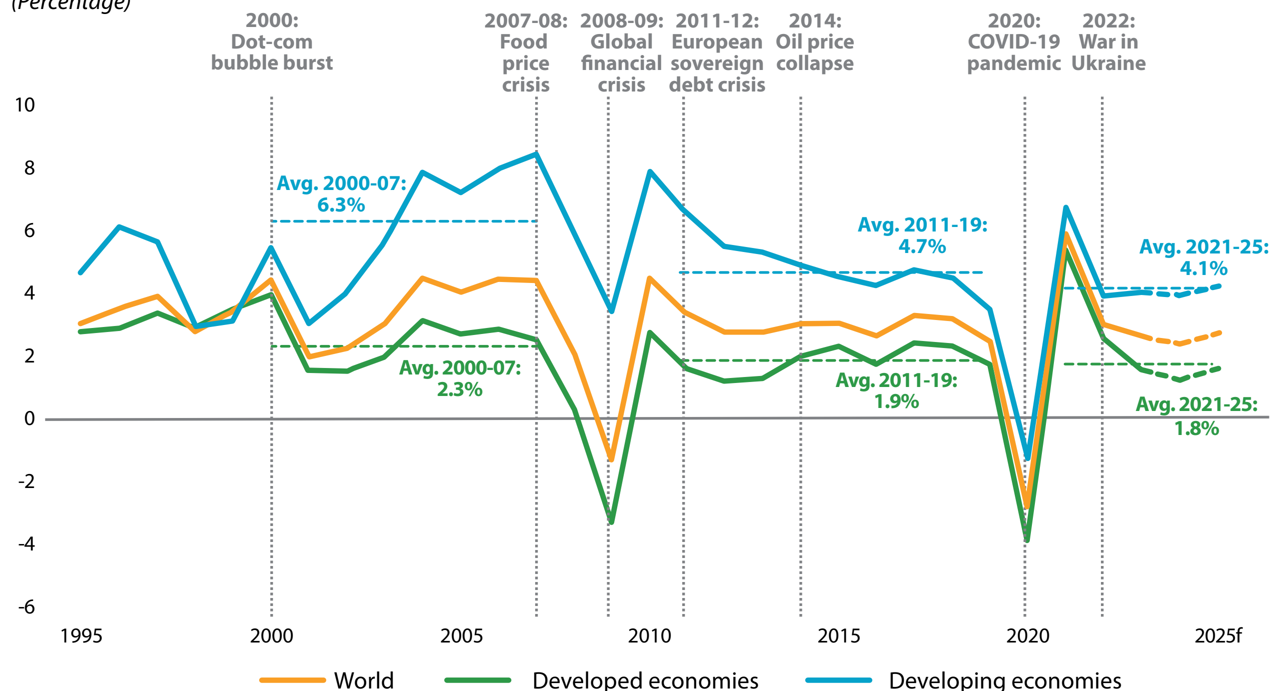
A prolongation of tight financing conditions severely dampens investment prospects. Global interest rates are at four-decade highs in inflation-adjusted terms (see chapter II). In a world awash with debt following a long period of very low global interest rates, this translates into fast-rising debt service burdens for sovereigns, reduced public spending and SDG investments. Already, more than 20 developing countries spend more on debt service than on public investment (see chapter III.E). In the period following the 2008 world financial and economic crisis, developing countries accessed bond markets at high volumes—for the first time in the case of many LDCs and other LICs. While this provided welcome access to new financing, the build-up in commercial debt has left many countries more vulnerable to changing global financing conditions. The dramatic fall in net debt inflows from 2020/21 means that many developing countries are facing an external financing squeeze (bond issuances have mostly seized in LDCs and other low- and lower-middle income countries, though some African countries have recently returned to markets). Under these circumstances, multilateral lending was a critical lifeline (see figure 1.4).

Tight financing conditions impact private investment. Rising interest rates have exacerbated weak investment trends, including contributing to a slump in blended finance deals (see chapter III.C). Higher costs of capital are particularly harmful for investments in the energy transition, with transitions by definition more sensitive to the interest rate environment than the status quo, and capital-intensive renewable energy production more sensitive to higher interest rates. Some estimates suggest that a doubling of the cost of capital from 5 to 10 per cent would raise the final cost of electricity from wind and solar by around 50 per cent, while the cost of gas-fired electricity would rise by only 8 per cent.[17]

Persistent inequalities

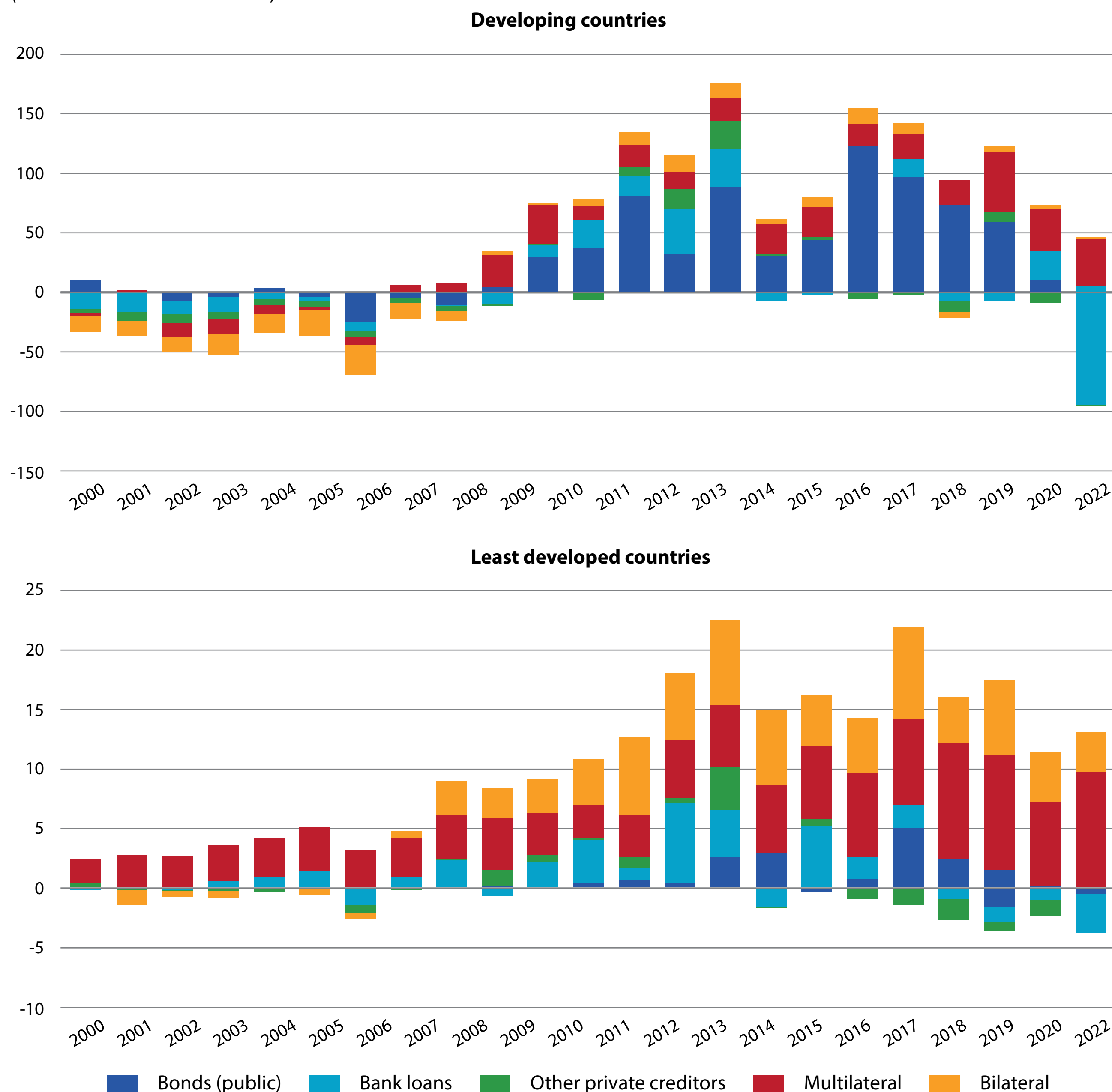
Inequality has become a central concern of policy debates over the last 25 years. Inequality has risen to the top of political agendas, following growing concerns by populations across the world[18] and due to its corrosive effects on trust in public institutions and on the social contract.[19] The 2030 Agenda for Sustainable Development embodies this prioritization, with SDG 10 and "leave no one behind" as a key cross-cutting principle. These broader trends are mirrored in commitments to address gender inequality. Since the 1995 Beijing Declaration and Platform for Action, normative frameworks—including the 2030 Agenda—have increased attention and commitment to gender equality and the empowerment of women and girls. Many Member States have adopted gender responsive legislation and policies. But insufficient financing for gender equality continues to be a significant barrier to the full implementation of these commitments.

Figure I.3
GDP growth rates
(Percentage)



Source: UN DESA calculations based on estimates and forecasts produced with the UN DESA World Economic Forecasting Model.
Notes: f=forecasts.

Figure I.4
Net debt transfers to developing countries
(Billions of United States Dollars)



Source: UN DESA calculations, based on IMF WEO data.

Despite growing attention and corresponding policy commitments, inequalities remain very high. Inequalities are elevated across many dimensions—between and within countries, in income and wealth, and across geographies, opportunity, race, gender and human mobility status. Economic inequalities have increased in many developed and some MICs, with more benign trends in the rest of the world. Data from 114 countries shows that none of the countries have achieved full women's empowerment or complete gender parity.[20] Even in areas with demonstrable progress, there continue to be challenges and, in some cases, reversals. For example, improved education for girls has done little to shift deeply entrenched occupational segregation. The global gender pay gap persists, with women earning 51 cents to every dollar earned by men.

Development financing is both a significant impediment to mitigating inequality and a key lever to rectify it. Inequalities can undermine the mobilization of development financing through

their detrimental impact on growth and financial stability, or through their undermining of the social contract and more resistance to taxation. Perhaps more importantly, financing policies are crucial tools to overcome inequalities. However, despite commitments to the contrary, financing policies today still often perpetuate inequalities rather than tackle them. Fiscal and tax systems, financial and macroeconomic policies, and trade, investment and technology policies have all come under scrutiny as uneven trends across countries and time reveal that inequality is usually a (financing) policy choice.[21]

Rapid technological change and digitalization

Novel technologies' impacts on economies and societies have been profound and multifaceted over the last 25 years. Technological advances have been an important driver of progress on the SDGs, and they are also the main reason that a narrow path remains to keep global temperature increases below 1.5 degrees Celsius (see chapter III.G). At the same time, the benefits of rapid technological change have not been distributed evenly, neither among nor within countries, as innovation remains highly geographically concentrated and technology diffuses more slowly than in the past.

Digital technologies have impacted all action areas of the Addis Agenda (see the *Financing for Sustainable Development Report 2020*). Digital technologies have been a driver of financial inclusion and improved public governance, but they have also created new risks for financial stability and integrity. They have profoundly impacted the tax landscape and resource mobilization through their transformative effect on production processes and tax administration. And they have reshaped the international division of labour, with digitalization and advanced digital production technologies further "raising the bar" for developing countries. Demands on infrastructure, logistics and connectivity as well as educational and skills requirements are rising, making it more difficult for firms in many countries to compete.[22]

Rising geopolitical tensions

In a moment when global challenges abound and global cooperation is more important than ever, growing geopolitical tensions risk undermining the international community's capacity to respond effectively. Geopolitical tensions, violence, conflict and war have contributed to the challenging global macro-environment, present a major downside risk for future growth prospects, and make it more challenging to arrive at effective global policy responses. Tensions have played out across several financing policy areas, including investment, trade and technology policies. Some countries are reducing external dependencies in sectors that are deemed strategically important, such as semiconductors, other high-tech sectors and energy. Trade restrictions imposed for geopolitical and national security purposes have surged since 2020. Some estimates suggest that severe fragmentation of the global trading system could cost up to 7 per cent of global GDP.[23] Current arrangements in the international financial architecture and in international tax cooperation have also not kept pace with changes in the global economy. There is, however, widespread recognition of the need for reform to avoid further geo-economic fragmentation and an erosion of multilateralism and a rules-based order, which would affect vulnerable and the least powerful countries the most.

3.2 Progress in the financing for development action areas within a challenging global context

Notable progress in sustainable finance has been made over the last 25 years, but it has not kept pace with rising financing needs and has come more haltingly, and in some cases was reversed, in an increasingly challenging global environment. Deceleration is an oft-repeated trend in revenue mobilization, private sector dynamics, trade and cross-border investment flows. Commitments have become harder to meet, and long-standing gaps in policy frameworks and the international financial architecture are more pertinent in a period of more frequent shocks and rising systemic risks. In the last several years, this has led to setbacks and even regression, and a widening of SDG financing gaps. Simultaneously, the collective recognition that the world is running out of time on climate action and the SDGs has triggered a new commitment to financing reform.

Public finance and investment

(Action areas A, C, E)

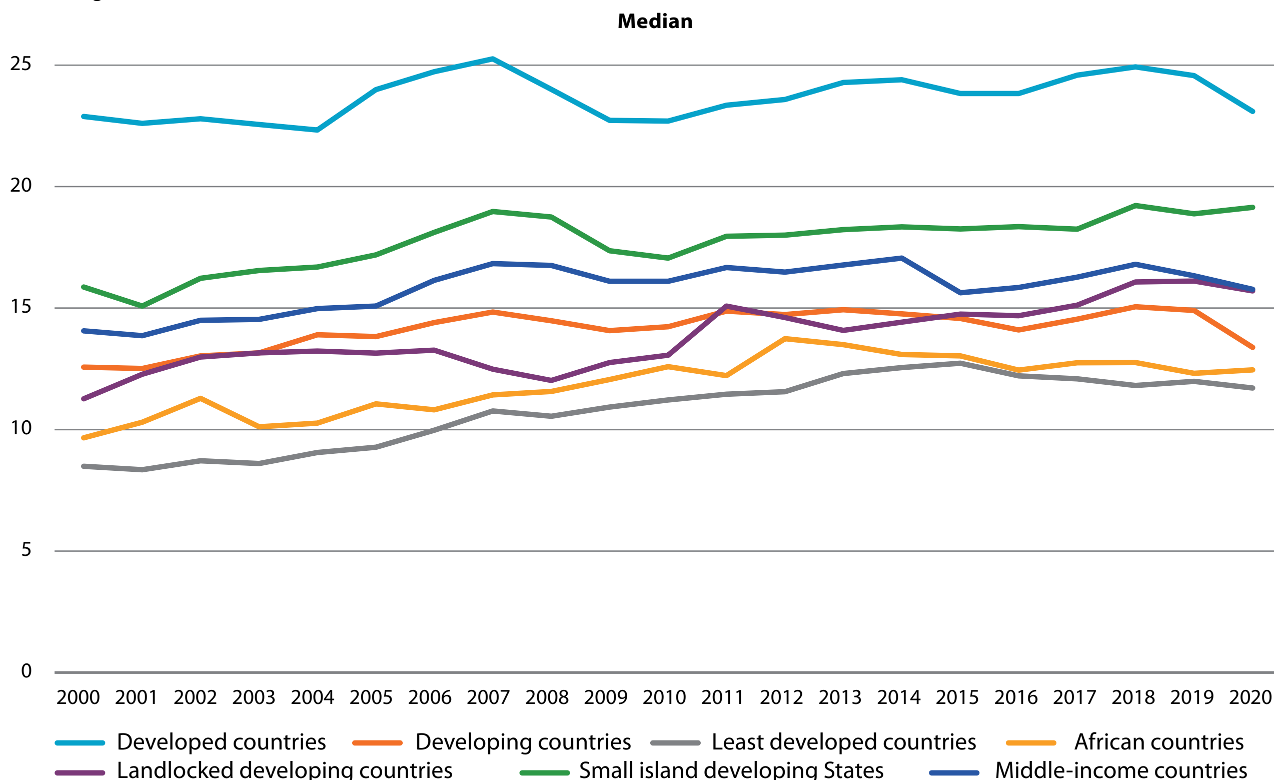
With demands on public financing increasing, many countries today find themselves with large public financing gaps amid tight fiscal constraints. The mobilization and effective use of public financing—domestic resources, international concessional and non-concessional financing and public debt—has been a central focus of efforts. Despite notable progress, particularly early in the millennium, many developing countries today face tight fiscal constraints. Despite rising international support and efforts to mainstream the SDGs in countries' and donors' budget and allocation decisions, more needs to be done to increase support, fully align spending with the SDGs and enhance its effectiveness.

Domestic revenue

Many developing countries were able to significantly increase tax revenues in the decade before the 2008 world financial and economic crisis. Since then, the record has been more mixed. On the back of a dynamic global economy, two thirds of countries were able to improve tax-to-GDP ratios in the first decade of the millennium, supported by revenue administration and tax policy reforms. However, that dynamism was not sustained; median revenue ratios have been stagnant since then. Only a fraction of countries have seen rapid revenue gains sustained over time; this suggests that expectations for rapid and sustained revenue increases in a large number of countries may be too optimistic. Median tax-to-GDP ratios in developed countries were over 22 per cent before the pandemic but amounted to just 12 per cent in LDCs (figure 1.5). The average finance minister in a developed country mobilizes more than $17,000 in revenue per every inhabitant to provide public services; in the average LDC, that sum is just above $100.

Globalization and digitalization have challenged the effectiveness and efficiency of revenue mobilization systems. Greater adoption of digital technologies by revenue administrations has helped to collect revenue and reduce compliance gaps but developing countries have been slower to adopt such technologies. Over the last 20 years, developing countries have been squeezed between their relatively less formalized economies and smaller tax bases, declining tariff revenue due to trade liberalization, and competitive pressures to lower corporate

Figure I.5
Tax revenue, by country groups, 2000–2020
(Percentage of GDP)



Source: UN DESA calculations based on IMF WoRLD.
Note: General government tax revenue as a percentage of GDP, M49 geographic groupings.

taxes. In combination with growing public financing needs, efforts to constrain harmful tax competition and combat tax evasion and avoidance have prompted much of the attention paid to advancing international tax cooperation (see below).

International development cooperation

International development cooperation has increased since the adoption of the Monterrey Consensus in 2002 and played a critical role in addressing successive crises, but it has not kept pace with rising demands:

- **Bilateral official development assistance (ODA):** Donors have responded to growing global challenges by increasing ODA, with ODA provided by members of the OECD Development Assistance Committee reaching an all-time high of $211 billion in 2022, more than double in real terms the level two decades ago. Nonetheless, most donors fall significantly short of the 0.7 per cent of gross national income commitment. A more crisis-prone world has put pressure on concessional financing, with country programmable aid, which excludes donor refugee costs, humanitarian aid, debt relief and administrative costs, declining as a share of total ODA compared to its peak in 2009.
- **Multilateral development bank (MDB) lending:** Lending by MDBs has grown significantly. Annual disbursements increased from $30 billion in 2000 to $96 billion in 2022, with MDBs providing vital countercyclical support during crises, sharply increasing disbursements in 2009 and after the pandemic. Multilateral development banks are in a unique position to accelerate investments in sustainable development, but the size of the paid-in capital bases of MDBs has not increased in line with the global economy's expansion, nor with growing investment needs. Scaling up MDB resources has become a key priority for the international community, and the MDBs have begun to undertake a range of reforms to expand their financial capacity. MDBs are also well placed to improve aid coordination and a key source of concessional financing. But their concessional arms that rely on periodic replenishments have been facing falling donor contributions in real terms. The World Bank's International Development Association remains the primary source of concessional finance for lower-income countries. The upcoming 21st replenishment, under negotiation during 2024, will need to be the largest ever to help meet SDG financing needs.
- **South-South cooperation:** South-South cooperation has evolved substantially over the period and has expanded in scope, volume and geographical reach. It includes a more diverse range of both governmental and non-governmental actors, notably two new South-led development banks.
- **Climate and biodiversity finance:** While climate finance has grown over time, the commitment of "$100 billion climate finance per annum by 2020" that was agreed by countries at the fifteenth Conference of

the Parties (COP15) and confirmed at COP21 (Paris) is yet to be met. The latest OECD assessment finds that climate finance amounted to $89.6 billion in 2021, an increase of over 70 per cent compared to 2013. Climate finance mobilized by MDBs, bilateral development agencies and global climate funds plays a catalytic role but remains small relative to total financing requirements and will require more public and private capital mobilization for climate actions. With a proliferation of funds (81 active climate funds as of 2022, of which 62 are multilateral), the climate finance architecture has also become increasingly complex and fragmented. This has not only created monitoring and reporting challenges but has also made coordination and access to finance more difficult for developing countries, especially LDCs and SIDS.

Debt financing

After declining in the 2000s, debt levels increased rapidly in the last decade as a result of debt-financed infrastructure drives and have been a central concern since 2020. In the early years of the millennium, many developing countries benefited from strong growth, and LDCs and other LICs benefited from major debt relief initiatives, leading to a significant easing of debt burdens. Over the past 10 to 15 years, many countries embarked on ambitious, externally financed infrastructure drives, which led to rapid increases in public and external debt. The rapid build-up of debt was enabled in part by new creditors: In a period of exceptionally loose global monetary conditions, many poor countries issued international bonds for the first time; non-Paris Club official creditors also became a major source of debt financing. Recent shocks and rapidly tightening financing conditions have led to a dramatic reversal, with only scaled-up multilateral financing preventing a collapse in external financing.

Rising debt levels, changing creditor composition and tighter financing conditions have culminated in greater debt service burdens and liquidity and solvency risks. Twenty-five developing countries dedicate more than a fifth of their total revenue to servicing public external debt alone, and 3.3 billion people live in countries where governments spend more on interest payments than on education or health. Debt burdens crowd out SDG financing, and they threaten debt crises for more than half of all LDCs and other LICs assessed as either high risk or already in debt distress.

Aligning public expenditure with the SDGs

Efforts to align expenditure more fully with the SDGs and use public resources more efficiently have seen mixed progress. For example, many countries have attempted to align their budgeting practices with gender equality and other SDGs. But while gender responsive budgeting has been increasingly implemented globally, only one in four countries has a comprehensive system to track budget allocations for gender equality. Significant progress has also been made on delivering the human right to social security; most countries today have social protection schemes in place. But large gaps remain—for example social protection schemes are typically only at a nascent stage in LDCs and other LICs. In other areas of expenditure there has been regression in alignment, with fossil fuel subsidies growing over time, reaching $1.3 trillion globally in explicit subsidies in 2022 when energy prices experienced a dramatic spike.

Development cooperation providers have also taken steps to align their operations with the SDGs, but the development effectiveness agenda must be revitalized. International development cooperation has changed in multiple ways over the last decade, attributable to a broader set of priorities but also to growing demands on humanitarian aid, more diverse providers and more complex instruments. Actors have responded to these changes, with the MDBs for example taking steps to better align their lending and business practices with the SDGs and climate action. Overall, however, attention to the development effectiveness agenda has been lagging: more aid is untied, but the share of ODA reaching partner countries has plateaued and there has been limited progress on country ownership. There is a clear need to revitalize this agenda and develop a shared understanding of development effectiveness.

Private investment, trade and technology policies

(Action areas B, D, G)

Private sector development, a key driver of sustainable growth and development, has stalled in recent years. As noted in the Addis Agenda, "private business activity, investment and innovation are major drivers of productivity, inclusive economic growth and job creation". To deliver on these promises, business activity and investment need to be dynamic, inclusive and sustainable. However, private sector dynamism slowed after the 2008 world financial and economic crisis, visible in decelerating investment and trade trends. Many developing countries struggled to diversify their economies, integrate productively into the global economy and absorb and productively use new technologies. Geopolitical fragmentation could further exacerbate these challenges, as barriers to trade, investment and technology diffusion grow.

Investment, trade and technology trends

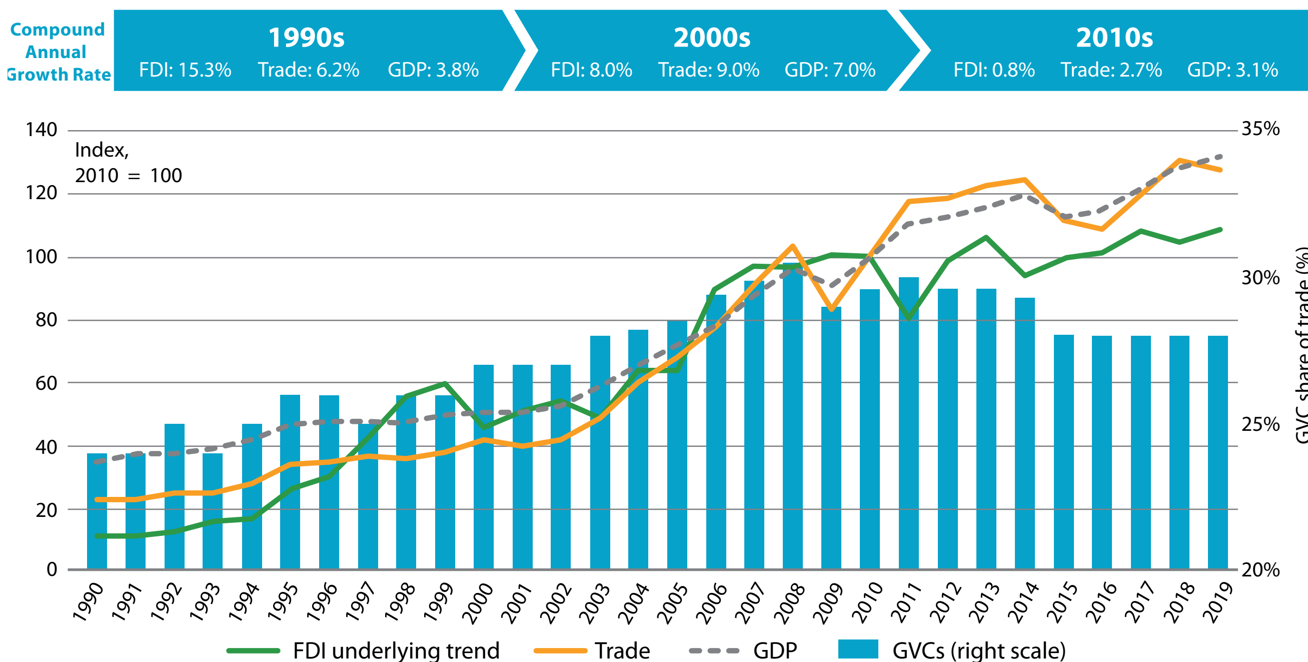
Investment growth has slowed and is expected to remain subdued. The growth of investment has slowed over the past two decades, particularly in developing economies, with gross fixed capital formation after the 2008/09 crisis remaining below earlier levels across regions. This broader trend is mirrored in foreign direct investment (FDI): Following rapid acceleration during the 1990s and 2000s, the past 15 years have seen a slowdown in FDI, along with decelerating trade growth and a stagnation in global value chains (GVCs) (figure 1.6). Investment growth is expected to remain subdued globally, with high borrowing costs and heightened economic and geopolitical uncertainties continuing to weigh on business and consumer confidence.

Trade dynamism has also slowed significantly. World merchandise trade nearly quadrupled in nominal terms over the period from 2000 to 2022. Yet, the pace of trade expansion has been highly uneven. A decade of rapid export growth, driven particularly by developing countries in Asia and the multilateral market opening between 1995 and 2005, was followed by weaker trade dynamism and a decline in trade openness due to a slowdown in the expansion of GVCs, diminishing impacts of technological advances, and a recent rise in strategies prioritizing domestic consumption and domestic supplier bases.

LDCs remain marginalized. Both trade and investment expansions have been driven by fast-growing developing countries but have largely bypassed the poorest countries. LDCs continue to trail behind as recipients of FDI and remain largely marginalized in international trade.

Technological progress has enabled economic integration and SDG progress, but innovative activity remains highly concentrated

Figure I.6
Foreign direct investment and trade trends, 1990 - 2019



Source: UNCTAD.
Note: Trade is global exports of goods and services. GVC share of trade is proxied by foreign value added in exports, based on the UNCTAD-Eora GVC database (see Casella et al., 2019). The underlying FDI trend is an UNCTAD indicator capturing the long-term dynamics of FDI by netting out fluctuations driven by one-off transactions and volatile financial flows.

and technology diffusion has slowed down. Technological advances underpinned rapid trade and investment expansions in the 1990s and 2000s. The impacts of novel technologies, foremost digital technologies, on economies and societies were much broader of course, supporting progress across the SDGs. Meanwhile, the production of new technologies remains highly concentrated—a trend that could become starker still with highly complex frontier technologies like artificial intelligence systems, and technology diffusion has slowed down due to rising complexity and the market power of key actors. Combined with the slowdown in technology diffusion driven by the increasing complexity of technologies, this could lead to further divergence.

The search for new development pathways

These significant structural changes pose new challenges for countries' productive integration into the world economy, necessitating a search for new growth and development strategies. Private sector development has traditionally been associated with industrialization and diversification. A thriving manufacturing sector has often been at the heart of such transformations. In the context of digitalization and asset-light production models, less trade dynamism and the geographical concentration of manufacturing in several large developing countries, this has become more challenging, with manufacturing less effective as a "development escalator". "Traditional" models of development based on attracting FDI and exports of manufactured goods are increasingly difficult to pursue. Increased fragmentation could further undermine prospects: Rising geopolitical tensions have spurred efforts to de-risk supply chains, including through so-called friendshoring and nearshoring, and strategic measures to limit technology spillovers.

New growth strategies must be sustainable and inclusive, and policy frameworks adjusted accordingly. There are no ready-made recipes for new private sector development pathways. Manufacturing will remain critical, but labour-absorbing services could play an important role for decent job creation. And they will need to focus on sustainable transitions, with policy frameworks adjusting accordingly. Countries' efforts to create enabling environments for private investment must be aligned with the SDGs: the sequencing and prioritization of public investments; setting the "right" incentives through fiscal and tax policies; ensuring that regulatory frameworks reflect appropriate labour, environmental and health standards; and aligning investment and trade facilitation policies with sustainability. Similarly, selective policies such as industrial policies which had already been resurgent since the 2008 world financial and economic crisis, must be sustainable and inclusive (see the *Financing for Sustainable Development Report 2023*). Identifying country-owned strategies suitable to specific country contexts and aligning financing policies with them will be a key challenge going forward.

Financial sector development: The search for enhanced access, stability and sustainability

(Action areas B, F)

A more dynamic and sustainable business sector relies on more inclusive and sustainable financial markets. Lack of access to affordable finance along with financial incentives misaligned with sustainability are

often among the most binding constraints for sustainable private sector development—and for sustainable development at large. Availability of long-term financing continues to be a challenge, particularly in developing countries. Investors' short-term incentives also often stand in the way of sustainable finance reaching scale, even as interest in sustainable financing and sustainable investing has increased dramatically. Extending investors' time horizons is thus imperative to fully align their incentives with long-term sustainable development so that financial sector stability and sustainability can be mutually reinforcing.

Access to (long-term) finance

Over the past two decades, innovations in public policies and digital finance have driven significant progress in financial inclusion for businesses and individuals alike. Enhancing access to finance for all individuals, including women, has been a success story: global account ownership increased from 51 per cent of households in 2011 to 76 per cent in 2021. In developing countries 567 million adults gained access between 2017 and 2021 alone. Nonetheless, significant challenges remain, especially for women in LDCs and other vulnerable countries, where many remain excluded from financial services. Cost reductions in financial services also fall short of commitments, notably for migrant remittances, which have grown steadily over the past two decades but whose average costs are still more than double the SDG target of 3 per cent of the remittance amount.

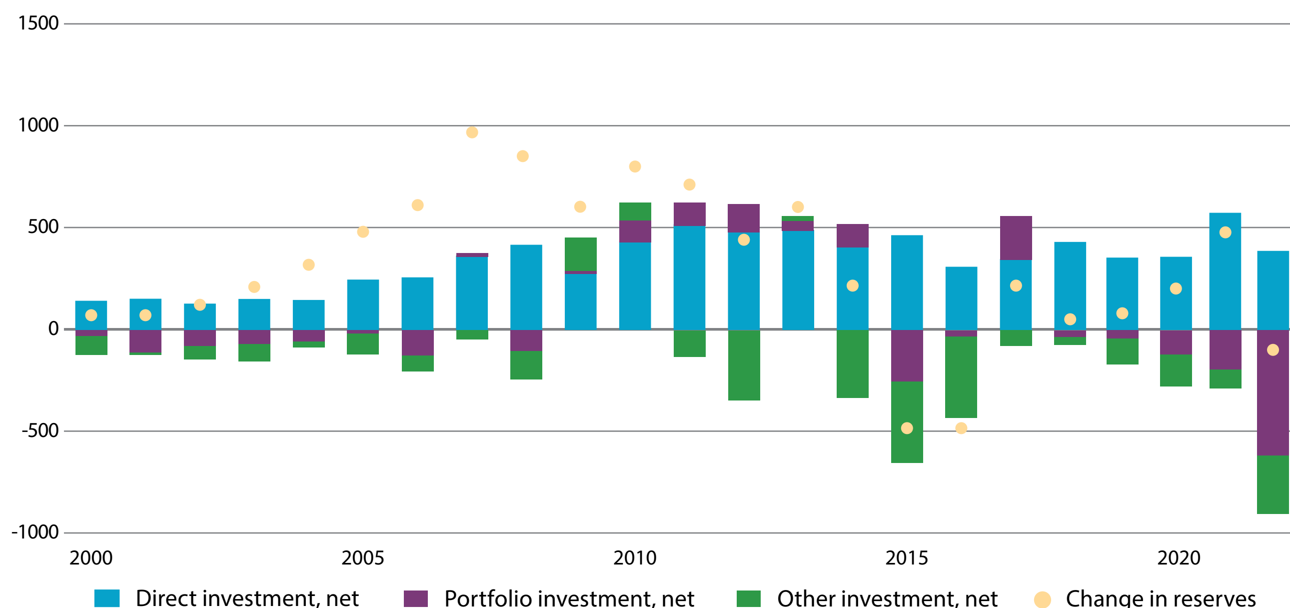
At the same time, financial and capital markets remain underdeveloped in many developing countries. Despite efforts to promote long-term finance in domestic markets and an increase in domestic lending to the private sector over the past 20 years, financial market liquidity remains shallow in many developing countries, and long-term credit continues to be scarce. This reflects market inefficiencies and institutional gaps—which call for stepped-up efforts to develop domestic financial markets. But it also reflects investors' risk perceptions. The comparatively high costs of capital for project financing in many developing countries are driven more by macroeconomic risk perceptions than by project risk.

Public development banks (PDBs) could play a major role in closing long-term financing gaps. PDBs usually provide longer-term funding than commercial banks, thus lengthening time horizons; plus, their development focus makes the financial durations of their lending better aligned with social and environmental sustainability. Due to their greater appetite and ability to bear perceived high risks and long payback periods, well-governed PDBs can be important financing tools to implement economic and social policies, especially to directly finance large infrastructure projects and, more recently, to address climate change and investments in resilience. PDBs and other development finance institutions can also leverage private investment and foster capital market development, for example through public-private risk sharing and other blended finance instruments.

Financial sector stability and sustainability

Financial volatility has contributed to the dearth of long-term financing. Following the end of the Bretton Woods exchange rate system in the 1970s, the global economy saw financial sector growth, deeper global integration, and increasing complexity in financial instruments and intermediaries and, along with that, growing systemic risks. Financial globalization enabled spillover effects from global financing conditions and macroeconomic policies in major developed countries to affect the exchange rate and financial stability, debt sustainability and access to

Figure I.7
Net financial flows to developing countries, 2000-2022
(Billions of United States dollars)



Source: UN DESA calculations based on IMF data.
Notes: Positive values reflect a financial inflow.

long-term finance in developing countries. This was borne out during crises in 2008/09 and at the onset of the pandemic, which carried ripple effects from market instability. Indeed, developing countries have seen numerous surges and reversals of portfolio capital and other investment flows over the last two decades (figure 1.7). The most recent flight to safety left many developing countries in a very challenging external position and in many cases reliant on official support, with net financial inflows, trade and investment all developing unfavourably.

Recent market turbulence has also rattled the sustainable finance field, although investor interest remains high. Investor interest in sustainable finance has grown steadily since the 1990s, with a net acceleration from 2015. Despite some fluctuations following the COVID-19 pandemic, sustainable fund flows have also largely remained resilient. Global sustainable investing assets amounted to $30.3 trillion in 2022. Nonetheless, sustainable assets make up only a small fraction of total global assets under management today, and bypass countries most in need. They remain dominated by environmental, social and governance (ESG) integration (which uses ESG factors to better manage financial risks) and negative screening (which excludes sectors such as armaments and tobacco). Impact or thematic investing, which aims to maximize sustainable development impact, represents only a small share. The field also remains hampered by a weak information infrastructure and lack of transparency and accountability, with multiple competing terminologies, standards and frameworks (despite important progress in the streamlining of voluntary standards), and by systemic barriers within the wider financial system.

Successful transitions require financial stability and sustainability. There is growing recognition of the need to adopt a more systemic approach that makes sustainable finance part of a broader set of economic and financial policies that support greater alignment of financial flows with national and international sustainability goals. The drive for sustainable finance is bypassing those who need it the most, with less than 3 per cent of sustainable investments in LDCs and other LICs.[24] As long as costs of capital continue to favour traditional investments and do not systematically reflect long-term climate risks, investor interest will not drive sustainable financing at the scale needed, nor will it prevent investments in brown assets. For transformations to succeed, sustainable finance policy must be part of a broader set of economic policies that can align incentives of real economy actors with sustainability.

Aligning policy frameworks and governance

(Cross-cutting)

The financing for development outcomes emphasize the central role of policy, institutions and governance for the mobilization and effective use of financing. These frameworks have come under scrutiny in the last few years both at the national and global level, as a more expansive development agenda and a more challenging macro- and financing context have put existing arrangements under strain.

Progress at the national level: Integrated financing frameworks

Since the adoption of the Addis Agenda, a growing number of countries have adopted integrated financing approaches at the national level, in line with the broader revival of economic planning. The need for transformative change for the SDGs and climate action has fuelled a revival in national planning, but such plans have often not been fully budgeted and are poorly linked to broader financing policies. A 2019 review of more than 100 national development plans, for example, found that less than 30 per cent explained how they would be financed.[25] In response, there has been growing interest in integrated financing approaches, with more than 80 countries now using integrated national financing frameworks (INFFs) to develop national financing strategies and integrate planning and financing policy functions. The concept of INFFs was first introduced in the Addis Agenda, in which Member States noted that "cohesive nationally owned sustainable development strategies, supported by integrated national financing frameworks (INFFs), will be at the heart of our efforts".

Integrated financing reforms are now under way in many countries (see box 1.1 for country-level examples). Among the main lessons from these pioneering countries is that INFFs need strong political backing and broad-based country ownership. Where such ownership is in place, INFFs hold great potential for the international community to align its efforts with these country-led approaches.

International architecture and global governance

The international financial architecture is in flux with countries in agreement on the need for reform. The fallout from the pandemic and other recent shocks have galvanized calls for the reform and strengthening of the international financial architecture. Efforts are now under way to remake international organizations, norms, rules and frameworks across the action areas of the financing for development outcomes:

- On **international tax cooperation:** Bilateral relationships and agreements were long the dominant form of international tax cooperation, but this has changed in recent years; several multilateral legal agreements have been concluded since 2009, including on transparency and exchange of information. Nonetheless, attempts to address the challenges from globalization and digitalization have yet to yield an agreement that sufficiently addresses tax avoidance and evasion—and has full support from all Member States. Concerns also remain about the inclusiveness and effectiveness of existing international tax cooperation mechanisms.
- On **investment and trade**, the complex set of existing agreements has led to calls for reforms to enhance coherence between trade, investment and sustainable development. This includes calls for World Trade Organization (WTO) reform, with a focus on dispute settlement, updating rules to reflect global economic changes, and reinvigorating multilateral negotiating functions; and continued efforts to update investment treaties, with modern agreements now often including a sustainable development orientation, a focus on preservation of regulatory space, and improvements to or omissions of investor-State dispute settlement mechanisms.
- On **development cooperation**, reforms of the MDBs are under way with a focus on scale, quality of lending and development impact (see above). From an architecture perspective, growing systemic risks and more frequent and severe hazards have increased the urgency of incorporating vulnerabilities into access to concessional finance across providers—key dimensions of sustainable development (or lack thereof) are currently not sufficiently considered in the international financial architecture. Efforts to move beyond GDP have gathered steam, including measures of vulnerability, and could help to further complement income-based criteria in the allocation of concessional finance.

Box 1.I
Financing policy reforms in the context of INFFs

Mongolia is advancing reforms through its integrated national financing strategy. On the public finance side, reforms to align the budget with the SDGs are expanding, now covering more than $900 million of annual expenditure. The Mongolian Development Bank has adopted a sustainability risk management framework and the National Audit Office has adopted SDG performance audits. An SDG finance taxonomy for private investment was launched in 2023 and sustainability reporting standards have been adopted by the Stock Exchange for compliance by over 200 companies with a market capitalization of $3 billion.

In the Maldives, the gender-responsive climate financing strategya is advancing 16 financing policy objectives pivotal to the transition from a fossil fuel-based economy to a low carbon development path.[a] A Sustainable Finance Hub set up by the Ministry of Finance coordinates financing across government for the country's national development plan and its nationally determined contribution. In Nigeria, the financing strategy[b] has catalysed federal innovations in areas such as investment promotion and tax in the artisanal and small-scale mining sector, with a number of states also exploring how to use the INFF approach. In Uzbekistan, SDG budgeting reforms have seen a $4 billion increase in SDG-aligned expenditure alongside a $1 billion reduction in harmful expenditure; in Sierra Leone, pilots to digitalize local tax administration have yielded over $300 million in additional revenue; and in Cabo Verde, the Blu-X platform launched under the INFF has hosted issuances totalling more than $40 million to advance the economic transition towards a blue economy.

Source: INFF Facility.

a Accessible at: https://www.finance.gov.mv/public/attachments/IzyzZHlHy0ZWB7Yl17aw16YkFhE5o8DfVxThmru0.pdf

b Accessible at: https://inff.org/resource/nigeria-integrated-national-financing-framework

- On **debt**, the restructuring of sovereign debt has highlighted deficiencies in the rules-based international financial system, with the system relying on contractual approaches to restructure private debt and informal negotiation processes for bilateral debt. The Group of Twenty (G20) Common Framework represents an advance in this architecture, but many challenges remain and further improvements are critical to speed up the resolution of ongoing restructurings, find more effective tools in case of a widespread systemic debt crisis, and to better address the development dimension of current debt challenges.
- On **systemic issues**, the global financial safety net, with the IMF at its centre, has come under enormous strain in recent years, revealing both gaps in the architecture and uneven coverage. Developed countries are best served by the safety net as they can rely on the unlimited bilateral swap network among the reserve currency-issuer countries. Most developing countries rely only on their own reserves and limited IMF resources and have been the main users of the 2021 SDR allocation.
- On **global governance**, despite repeated commitments to increase the voice and representation of developing countries, significant reforms to institutional arrangements have so far not been agreed, and the pace and scale of change, where it has happened, has left many countries dissatisfied.

Ongoing reform processes hold the potential to deliver a more coherent and effective international architecture, and the Fourth International Conference on Financing for Development is a key opportunity to adopt a coherent package of reforms. Discussions and institutional reform processes have the potential to close some gaps in the international architecture, align it better with the needs of the twenty-first century, and scale up financing for the SDGs and climate action. However, if they proceed in piecemeal fashion and fail to take the SDGs fully into account, the architecture will remain fragmented and inadequate to deliver sustainable development. Failure to deliver real reform could risk undermining faith in multilateralism itself. The financing for development process at the United Nations provides an opportunity to bring these different strands together.

4. Conclusion

This report of the Inter-agency Task Force on Financing for Development puts forward key questions and challenges that Member States may wish to address at the Fourth International Conference on Financing for Development. All five major institutional stakeholders of the financing for development process, the IMF, the World Bank, WTO, the United Nations Conference on Trade and Development (UNCTAD) and the United Nations Development Programme (UNDP) as well as the United Nations Department of Economic and Social Affairs (UN DESA), are also sharing their respective institutional perspectives and expectations for the Fourth International Conference on Financing for Development, in attributed contributions (see section 5 below).

The subsequent chapters of this ninth report of the Inter-agency Task Force lay out the global macroeconomic context (chapter II); and review progress and challenges across the seven action areas of the Addis Agenda, and with regard to data (chapters III.A to III.G and IV). In response to the mandate received at the ECOSOC Forum on Financing for Development Follow-up 2023, to assess "*progress made in the implementation of the Monterrey Consensus of the International Conference on Financing for Development, the Doha Declaration on Financing for Development and the Addis Ababa Action Agenda, identifying obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, with a view to informing an inclusive informal dialogue on all issues related to a potential fourth international conference on financing for development*",[26] the chapters expand the time horizon of analysis, looking back to 2000, and put forward recommendations on questions and challenges that Member States could address at the Fourth International Conference on Financing for Development.

The Inter-agency Task Force is made up of more than 60 United Nations agencies, programmes and offices, the regional economic commissions and other relevant international institutions. The report draws on their combined expertise, analysis and data. The major institutional stakeholders of the financing for development process play a central role, jointly with the Financing for Sustainable Development Office of UN DESA, which also serves as the coordinator of the Task Force and substantive editor of the report.