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FOUR PRIORITIES FOR SUCCESS AT THE SEVILLA FOURTH INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT

HOMI KHARAS AND MAHMOUD MOHIELDIN

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Abstract

The great opportunity for the Fourth International Conference on Financing for Development (FfD4) is to integrate development, climate, and nature into a coherent sustainable development program. In a world of geopolitical competition and rapidly changing intellectual approaches, FfD4 is the only forum that can provide a political consensus on an overarching new strategy with equal voice for all member states, so that supportive tactical details can be later worked out in their respective technical arenas.

The first element of this new strategy is to acknowledge and broadly quantify the significant new investments that emerging markets and developing economies (EMDEs) should undertake in the forthcoming one or two decades. FfD4 should shift the discourse from aid to an investment-driven model. The tactical details of designing and executing quality investments, with support from all development partners, can be worked out through country platforms.

The second element is to build a supportive financing strategy with a new approach to private finance and investments. Private finance is multifaceted. When steered through proper channels of blended and mobilized financing packages, private finance can be beneficial. When left unchecked, it can be expensive and volatile. "Know thy investment" principles for responsible private finance should govern private lending to sovereign entities.

The third element is to reset concessional aid for sustainable development and reflect on the role of all multilateral, bilateral, and national development finance institutions. Old aid concepts—including the 0.7% target—must be rethought in a new environment where aid must cover more issues, through more instruments, in more vulnerable countries. Methods and guidelines for effective aid allocation in this new context are needed. In parallel, multilateral and bilateral non-concessional lending can lead the way to expand pools of investable finance in all EMDEs.

Fourth, a fresh approach to fiscal space that encourages high-return, quality investments is needed. There is no chance of successful sustainable development or sustained improvement in creditworthiness without this. The current focus on bringing down debt/GDP ratios below arbitrary thresholds has biased fiscal policy toward underinvesting in human, physical, social, and natural capital and must be changed. An alternative that compares debt to the value of assets that are created through debt-financed investments is preferable.

Combined, these four elements could make FfD4 a turning point for how sustainable development in EMDEs is financed.

The financing for development (FfD) process

The Fourth International Conference on Financing for Development (FfD4) will be held in Sevilla, Spain, from June 30 to July 3, 2025. It follows three prior conferences at Monterrey (2002), Doha (2008) and Addis Ababa (2015). The FfD conferences have the aim of aligning development financing and policies with global priorities to identify and tackle areas where systemic change is needed. This year, there is a general agreement that FfD4 should tackle a broad array of sustainable development issues, encompassing traditional development areas such as health, education, and food security as well as climate action, covering mitigation, adaptation, resilience, and nature.

The FfD process has a very broad remit. The outcome documents cover domestic resource mobilization, private finance, international development cooperation, trade, debt, systemic issues, science and data. Not all areas are tackled with the same degree of detail or expectations of follow-up but, with hindsight, each FfD has had a significant impact in one or more areas. This note offers ideas as to how Sevilla may be remembered.

The first FfD, in Monterrey, Mexico, took place in 2002. The Monterrey Consensus is notable for underlining the major shortfalls of development finance to low-income countries compared to the investments needed to achieve the Millennium Development Goals (MDGs) that had been negotiated in 2000.[1] Monterrey was a consensus document encouraging advanced economies to make "concrete efforts" toward an aid target of 0.7% of their gross national income. Although the 0.7% target was never reached in aggregate, the annual growth of aid from rich countries averaged 6.4% in the 5 years after Monterrey compared to 1.2% in the 5 years before Monterrey.[2] It appears that Monterrey helped inspire some countries, notably in Europe, to give more aid.

The second FfD took place in Doha, Qatar in 2008 shortly after the global financial crisis and the breakdown in the negotiations on the Doha trade round. Doha is perhaps best remembered for the aid-for-trade programs it encouraged and for setting the stage for integrating climate and development at the ensuing Copenhagen conference on climate change in 2009.[3]

The third FfD was held in Addis Ababa, Ethiopia in July 2015. FfD3 was held in advance of the negotiations and final adoption in September 2015 of the Sustainable Development Goals (SDGs). The Addis Ababa Action Agenda nevertheless anticipated the "leave no one behind" focus of the SDGs, emphasized the crucial role of private finance, and encouraged countries to put in

place a social floor for the most disadvantaged in their societies, financed in part through strengthened local and international tax cooperation.[4] It also highlighted the need for significant new investments in data for development.

As these examples show, the primary value added by the FfD process comes from a reshaping of the narrative and collective framing of development priorities. In the best cases, new initiatives are endorsed, whether formally within the outcome document or in sideline deliberations and are later taken up by member states and the international community.

The outcome of FfD4 will again be a consensus document, with member states agreeing on adoption of the text, while retaining flexibility on implementation and their own global obligations.

In the past, cynics have quipped that FfDs are a celebration of the fact that nothing will change because they do not represent a formal commitment by individual member states. To avoid this in Sevilla, the best option is to focus on changing the narrative to respond to a few new issues, challenges, and opportunities. Inevitably, there will be a reiteration of previous expressions of desirable changes, but Sevilla will not be remembered for these unless it can clarify why there is a better chance of successful implementation today than in the past.

The new context for FfD4

The context for FfD4 is radically different from FfD3 in 2015. The last few years have altered the landscape of development. Geopolitical tensions and evolving views on trade, industrial policy, multilateralism and the role of the public sector have shaken accepted wisdom on appropriate development strategies, leaving an intellectual vacuum. Development progress has suffered. Economic growth in emerging market and developing economies (EMDEs) has slowed and gaps with advanced countries are widening in many instances. Over half of low income and vulnerable (LIV) countries—defined here as the 77 IDA-eligible and blend countries identified by the World Bank—have had lower per capita income growth in real terms than advanced economies since 2019, a divergence that has been rare in the past fifty years.

EMDEs today face tighter global capital markets and higher debt service costs. Aid is under pressure and within this envelope the amounts available for sustainable development have stagnated as a greater share of aid budgets goes toward refugee costs and humanitarian crises. FfD4 is taking place at a time when

ODA is being challenged as never before and when aid debates are not simply over aid volumes but also over aid effectiveness and its ability to expand the pool of investable finance.[5] The zero draft does not reflect these new debates or introduce mechanisms to strengthen accountability on the new agendas. It merely reiterates current aid volume targets.

Despite these headwinds, there are also new opportunities for inclusive and sustainable growth. The cost of electricity generation has fallen to historic lows thanks to tumbling prices for solar panels and wind turbines. EMDEs have developed ambitious investment plans: sustainable development plans, nationally determined contributions to mitigate climate change, national adaptation plans to avert losses from natural disasters, pandemic preparedness plans, and plans to preserve nature and reduce biodiversity loss. The potential investments identified in each of these plans, largely supported by independent analyses undertaken by institutions such as the World Bank in its country climate and development reports, could have substantial economic and social returns.

However, such investments cost money—the incremental financing gap for EMDEs (excluding China) has been estimated at $3-3.3 trillion a year by 2030 or about 8 percentage points of GDP.[6] Most of that should come from domestic sources—local banks, reduction of fossil fuel subsidies, reallocating budget resources from lower priority areas, and higher taxes. But around $1 trillion will be needed annually in external financing, of which about half might come from private sources, $320 billion from official non-concessional resources and $180 billion from official concessional assistance.[7]

While FfD4 should, and will, emphasize the importance of countries using domestic resources to the maximum extent, the real value of the discussions will come from changing underlying norms on how external financing for all sustainable development purposes—development, climate, and nature—is delivered. At the global level, all elements of development finance need to be aggregated and matched to investments. At the country level, SDG budgeting and application of integrated national financing frameworks should be converted from paper studies into operational tools.

Elements of a successful outcome for FfD4

Against this backdrop, FfD4 could be impactful in four significant ways.

1. Build a consensus around a "big push" for investment in climate and development. International financial institutions (IFIs) and many EMDE finance ministers are advocates for fiscal prudence through cutbacks in public expenditure. FfD4 should instead lift their ambition to unlock sufficient liquidity to prioritize high-return investments. As such, involvement of ministries of finance with the process is key to success.
2. Agree on the most promising channels for mobilizing private investment and finance for priority national transformations. For most EMDEs, private investment is not aligned with national development priorities and the instruments of private finance are inappropriate. For example, general-purpose bond finance has been problematic—procyclical, high cost, and not aligned to investment priorities. Blended finance and private finance mobilized by official financial institutions show more promise.
3. Recognize a new era for international development cooperation. "Old aid" is out. New aid needs specific purposes and clear standards to measure impact and success. It needs new norms for effective allocation among thematic priorities—global goods, humanitarian assistance, sustainable development, and conflict prevention—and across low-income, middle-income and fragile countries. It must work with multilateral, bilateral, and national financial institutions to expand the pool of investable finance for sustainable development in all EMDEs.
4. Manage debt to expand fiscal space by improving sovereign creditworthiness. Sovereign creditworthiness can be improved through faster economic growth and through institutional strengthening. Well-designed and executed programs of high-quality public investment can therefore expand fiscal space, even in situations of high public debt/GDP ratios, when accompanied by strong reforms. A sound debt management strategy can overcome liquidity problems while identifying affordable financing packages for new investments within a framework of macroeconomic stability.

If FfD4 can articulate these needs and encourage member states and the broader international community to move forward on these areas, it will be a success.

1. A big investment push for climate, development, and nature

The absence of a practical growth model is at the heart of the development crisis facing most EMDEs, except a select few in Asia. Simple growth arithmetic points to higher investments in human capital, infrastructure, nature, and resilience to avoid growth setbacks as key missing elements of a growth strategy.

For example, investment in Africa and Latin America are languishing at low levels—around 22% of GDP in the case of Africa and 20% of GDP in Latin America.[8] Medium-term projections by the IMF show no substantial increases in investment over the next five years.[9] At these levels, there is little prospect for a growth recovery.

To operationalize a big push of investments in sustainable development, a granular analysis is needed, based on specific sectoral analyses, to make development progress in each country. According to the 2024 State of Food Insecurity report, 582 million people will still be undernourished in 2030.[10] The World Bank reports that the share of 10-year-olds in EMDEs unable to read a simple text has risen to 70%, at a cost of $21 trillion in foregone lifetime earnings.[11] Climate change has country-specific spillovers onto ill-health, often exacerbated by accompanying water scarcity and poor sanitation.

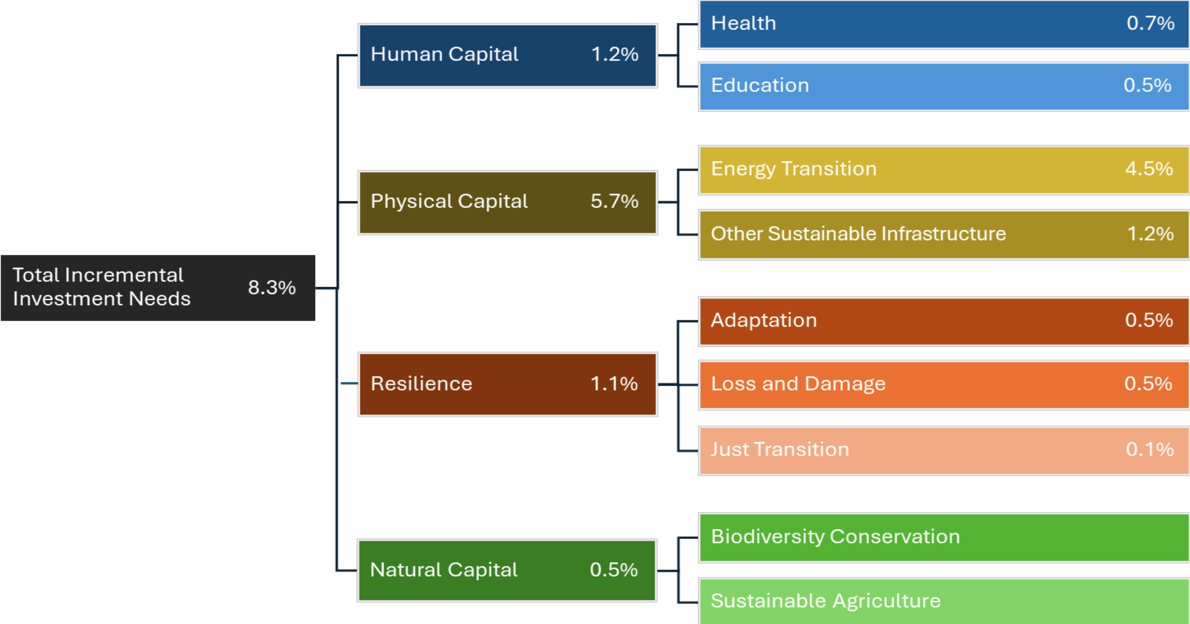
The urgency to act now to build resilience to limit damage in the future comes on top of traditional development challenges. FfD4 should focus on priorities dictated by current circumstances, acknowledging changes in context since the SDGs were set in 2015.

These priorities can be quantified to set the level of ambition for FfD4. Supplementing work undertaken for the Independent High Level Expert Group on climate finance to take account of human capital, the average incremental priority investments by 2030 in EMDEs ex-China amounts to some $3.3 trillion, or about 8.3 percentage points of GDP.[12] This represents the aggregate of investments in human capital, a green transition and other sustainable infrastructure, resilience and adaptation, and nature and sustainable agriculture and land use (Figure 1).

While priorities in each country depend on individual circumstances, the fastest rate of needed spending growth is in adaptation and in nature preservation, partly because existing spending levels on these activities are so low. That said, the largest absolute spending increases are for physical and human capital investments.

What emerges clearly from sectoral analyses is that there are large shifts in the composition of required investments. Low-income countries need to ramp up investment more rapidly than other countries because there is a low initial level of spending, so catch-up priorities to achieve minimal thresholds in each area are high.

Figure 1. Incremental investment needs in 2030 relative to 2022 (percent of GDP)



Source: Bhattacharya, Kharas, Rivard, and Soubeyran (2025) forthcoming

Natural capital and sustainable agriculture have been ignored in the past—to the peril of the communities that depend on these assets. To prevent degradation and preserve biodiversity, spending must be quickly and aggressively ramped up, especially in Latin America. Similarly, adaptation spending in Africa is a large priority given its higher-than-average exposure to climate change.

Traditional big-ticket development spending areas—health, education, and infrastructure—account for the bulk of the increases needed, but spending within these areas must be changed to build resilience and to take advantage of cheap technologies for renewables.

FfD4 should put the financing of such transitions at its heart by outlining investment opportunities at the regional and sectoral level, by encouraging countries to engage in macroeconomic discussions about their absorptive capacity, by discussing sectoral policy reform, and by identifying specific

investment projects and programs. The zero draft outcome document has already signposted this shift: "We will urgently increase our collective efforts and actions for a large-scale investment push for sustainable development."[13] But this aspiration should be buttressed by more detail, quantification, and timeframes to build consensus on the scale, urgency, and sectoral orientation of required investments, and on the composition of the associated finance.

Already, the emerging experience with country platforms suggests that merging the microeconomic identification of desired projects with macroeconomic fiscal frameworks can yield a balance of ambitious investment, reform, and financing packages that can generate sustained commitment from multiple partners over multiple decades.[14] FfD4 should strongly encourage such approaches.

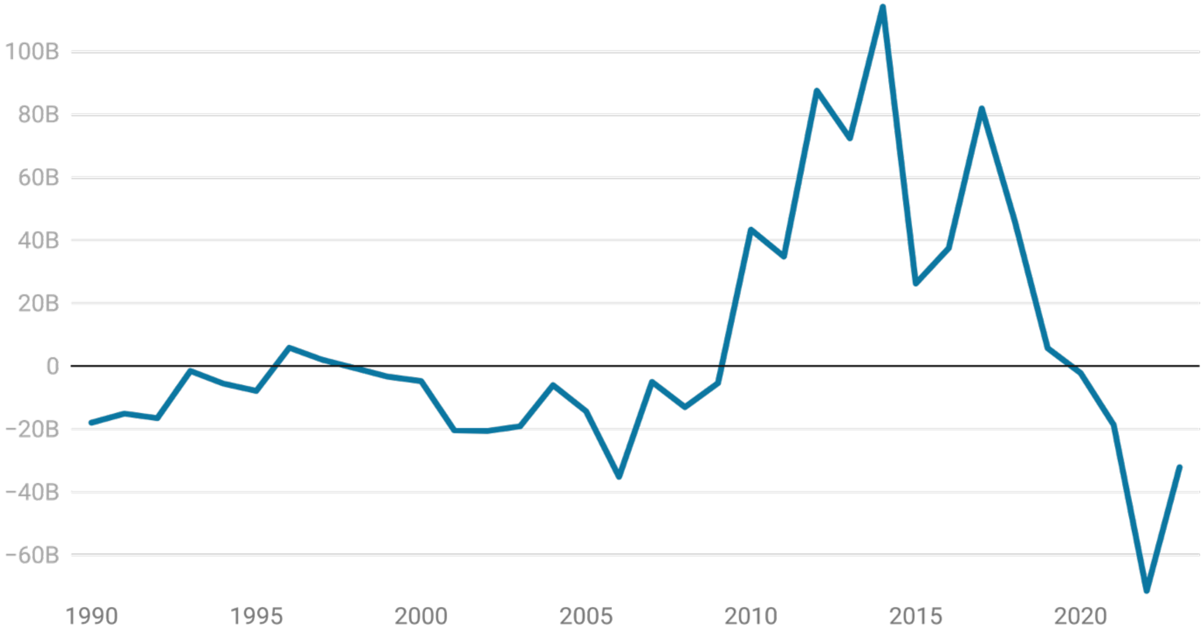
2. Mobilizing private investment and finance for development

Once investment needs are identified on a country-by-country basis, the operative question becomes where the money will come from. There is considerable scope for domestic resource mobilization from various sources, including from local financial markets in some EMDEs. The size of investment needs is so large, however, that it is clear that substantial external private finance will be needed.

At the time of FfD3, private finance to developing countries, ex-China, had risen steeply for several years (Figure 2) and there was excitement about the promise of private finance for development. By 2014, about 45 developing countries had received a credit rating from one of the four major agencies, permitting them to access global bond markets.[15] Net transfers of private finance to the public sector or through publicly guaranteed bonds and credits reached over $100 billion. However, 2014 would prove to be the peak year for private net transfers. They fell close to zero by 2019, and in the aftermath of the COVID-19 crisis they have turned sharply negative.

The disappointing experience with private finance to date has revealed three issues: (i) private foreign direct investments are mostly individual projects disconnected from national programs for systemic change and private finance to EMDE governments may be disconnected from investments—for example general purpose bond finance; (ii) private finance is expensive (higher interest rates and short maturities); and (iii) flows are highly cyclical and can create macroeconomic problems.

Figure 2: Private net transfers to low- and middle-income countries (current U.S. dollar)



Note: PPG, private creditors (NTR, current U.S. dollar). Excludes China.
Source: World Bank International Debt Statistics

In systemic transformations, coordination is needed between multiple actors. One of the biggest obstacles to private investors in renewables, for example, is the shortcomings of the national power grid. Similar issues arise across many infrastructure projects. Benefits are magnified when private and public investments happen in tandem to effect real transformation. Country platforms are a new mechanism to align private investments more closely with national priorities. However, these are complex undertakings with their own problems of governance and capacity constraints that need to be addressed.

Another mechanism for aligning private finance with national programs is through explicit mobilization of such finance by official creditors. Multilateral institutions such as the International Finance Corporation have created attractive mechanisms to mobilize debt and equity finance for development. These and other programs mobilized private finance amounting to $28 billion in 2015 and $70 billion in 2023.[16] Syndicated loans, collective investment vehicles, guarantees, and direct investments in special purpose vehicles are all important instruments for mobilizing private finance and ensuring its allocation to new investment priorities.

Mobilized private finance has an explicit causal link to new investment priorities that is not shared by all forms of private finance. General purpose finance, such as bond finance, has no explicit links to specific development activities, even though new categories of bonds—SDG bonds, green bonds, and the like—have tried to rectify this problem. One solution, that FfD4 can support, is to encourage countries and lenders to adopt standards for responsible borrowing and lending, building on those already developed by UNCTAD.[17] Such standards should include a "know thy investment" principle. This can now be monitored if countries adopt new IFRS standards as mandatory, comprehensive sustainability-related and/or climate-related disclosures, along with the auditing and assurance standards that verify the quality of the information provided.[18]

The issue of the cost of private finance must also be addressed. To illustrate, 30% of total LIV interest payments on public and publicly guaranteed (PPG) debts in 2023 serviced private creditors even though the share of these creditors in total debt outstanding was less than 19%.[19]

Blended finance addresses this issue of the high cost of private sector finance. In blended finance structures, official credits have been used to enhance returns, reduce risks, and offset diseconomies of small scale. Concessional money can provide a first loss guarantee, reducing risk of private debt and equity; it can directly provide guarantees and insurance at below market rates; it can fund the up-front fixed costs of project preparation and design, and it can provide technical assistance for successful project execution. Blended finance of this type amounts to about $15 billion per year but should be scaled up.[20] The key constraint is access to concessional funds. More concessional finance could sharply expand the pool of investable private finance. On average, each dollar of concessional finance has leveraged $1.8 of private finance and an additional $2.3 of official, commercially priced finance.[21] There is potential to raise both the amount of blended finance and leverage ratios and this should be acknowledged in FfD4.

The third issue, the countercyclical nature of private finance and its implications for macroeconomic management, is also significant.

When the world economy slid into recession in 2020, the flight to safety in global capital markets was sudden and sharp. EMDEs needed liquidity to pay back large debt service obligations. It proved difficult to get cooperation from private creditors. No private finance was rescheduled during the 2020/2021 debt service suspension initiative (DSSI) of the G20. While multilateral creditors also avoided rescheduling, they provided positive transfers through new lending. Private

creditors simply exited. In formal debt negotiations under the Common Framework and other forums, equal treatment of official and private creditors has proven to be a difficult principle to respect and the presence of different types of private creditors has made negotiations more complex.

A priority for FfD4 is to affirm the benefits of private finance, while reinforcing structures that establish a clean line of sight between investments financed with private capital and national development programs, that reduce the cost of capital, and that provide new solutions for macroeconomic management. These structures are further explored below in the relationship between private and official finance and in managing private financial debt, but the key takeaway for FfD4 is that private and official external finance should be addressed together as a package, rather than viewed as substitutes for each other.

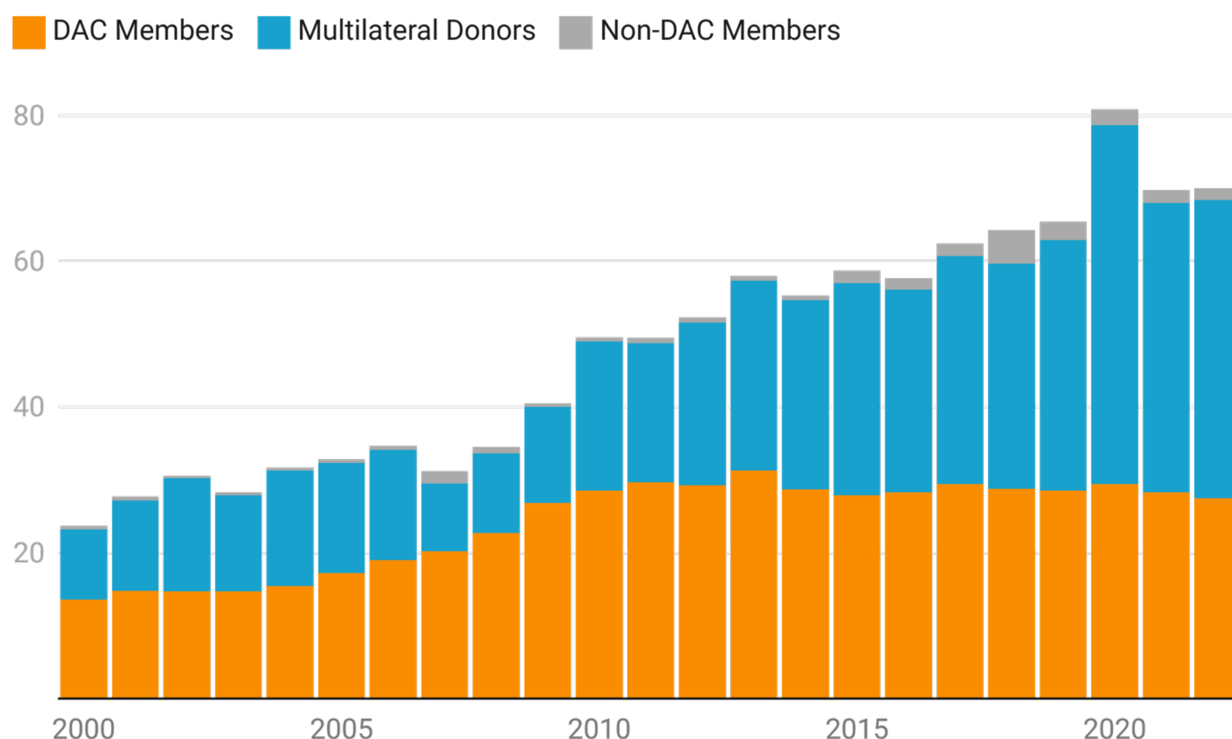
3. A new era for international development cooperation

Even before the new U.S. administration shocked the world by suspending its foreign aid until programs could be vetted for their coherence with U.S. national interests, it had become clear that official development assistance (ODA) needed to be reset. ODA volumes reached record levels of $258 billion in 2023 but still fell far short of what was needed.[22] Demands on aid budgets to respond to refugees, crises in Ukraine and Gaza, and urgent appeals for humanitarian aid in other parts of the world have meant that aid for sustainable development and global public goods has stagnated or fallen in some cases, even while new priorities for climate mitigation, adaptation, resilience, nature conservation and pandemic surveillance have emerged.

The shortage of aid resources has prompted outgoing EU Development Commissioner Jutta Urpilainen to announce the start of a post-ODA era for large European donors where aid is used as a catalyst to attract private investment, including large infrastructure projects funded through the EU's Global Gateway. Her comment echoed previous efforts to position aid as a catalyst to expand the pool of investable finance.

Previous FfDs have emphasized growing concessional financial assistance for sustainable development in low-income and vulnerable countries. Following FfD3 in 2008, country programmable aid (CPA) to LIVs rose by 7.8% in real terms up to 2015. Since then, however, CPA growth to LIVs has slowed to an annual growth of 2.6%—the exception being during 2020 when the global community mobilized extraordinary amounts to help LIV countries (Figure 3).[23]

Figure 3. Country programmable aid to low-income and vulnerable countries, 2000-2022 (billions, 2022 U.S. dollar)



Note: Excludes Ukraine. Low income and vulnerable countries (LIV countries) defined as those that are IDA or blend eligible.

Source: OECD Data Explorer

It is time for FfD4 to move beyond the traditional focus on aid volumes and to debate the role of development finance institutions at all levels—multilateral, bilateral, and national—on expanding the pool of financing for development and making it more effective. This "beyond aid" agenda represents a shift from an aid-driven to an investment-driven model of international development cooperation.

Partly, this approach is pragmatic; ODA volumes seem unlikely to grow substantially, if at all, in the next few years. The declining support in rich countries for ODA can be traced to the difficulty in communicating ODA's impact in a clear and compelling fashion and in linking it to national interest. The replenishment of IDA 21 saw a decline in real terms of donor contributions. The largest donors, namely the U.S. and large European countries as well as EU institutions, are reviewing aid levels. In the case of Europe, the post 2027 multilateral financing framework will set parameters for operationalizing priorities of the European Financial Architecture for Development.

Except for health, where metrics on lives saved have been powerful drivers for aid, it is difficult to identify an issue where ODA has solved a priority problem on a global scale.[24] This is not because of low or declining rates of returns on projects; there is ample evidence that ODA-financed projects have mostly worked well.[25] But ODA has been spread very thin over many areas, so impact is measured on the basis of individual project successes rather than in terms of a material contribution to a global goal.

FfD4 can link international development cooperation with the investments needed to make progress toward the goals identified by the main global processes driving sustainable development—Agenda 2030 and the SDGs, the UNFCCC process on climate action, the Kunming-Montreal biodiversity framework, and special programs for least developed countries and small island states.

A common sense of purpose would help member states deliberate on what is needed from bilateral and multilateral institutions to meet agreed-upon goals.

For the most part, ambitions for each sector are set individually—for example, FfD4 reflects the decision taken at the 29th conference of parties of the UNFCCC to enable $1.3 trillion in incremental annual investments for climate action by 2035 but it does not reflect the financing needs for investments in other sectors that have emerged from other intergovernmental gatherings.[26]

There is now an opportunity for FfD4 to aggregate all these sectoral priorities to arrive at a better understanding of overall sustainable development needs for the next decade. Absent such an understanding, tension will only grow between advocates for human capital, which has suffered deeply from scars left by the COVID-19 pandemic, and climate action; between those encouraging more mitigation and those favoring investing in adaptation and resilience. Nature investments will likely continue to lag. Framing an understanding of the process through which bottom-up individual country priorities can match top-down donor-driven strategic aid allocations would be a big advance for FfD4.

Because sectoral investment requirements differ for specific geographies, aggregate sectoral allocations have important implications for who gets ODA. For example, the shift toward infrastructure and climate action is already shifting ODA away from least developed countries (LDCs) and fragile states. Such a shift is accentuated by the desire to leverage ODA impact through blended finance because, as a practical reality, most private finance goes to middle-income countries. FfD4 should build a political constituency to ensure that LDCs and fragile states do not get left even further behind.

Given that ODA is not scalable, at least in the current political context, it cannot be relied upon to provide the large, needed increments to funding with the urgency to confront all of today's development challenges. The most viable alternative is to put greater emphasis on scaling up non-concessional official financing from multilateral and bilateral sources, even to low-income countries whenever the investments being financed are economically viable—as is the case for many infrastructure projects. The G20 has recently focused on reform of multilateral institutions, with some success in expanding ambition and changing mission. FfD4 could add momentum to these reforms if middle-income member states signal a substantial demand for such engagement.

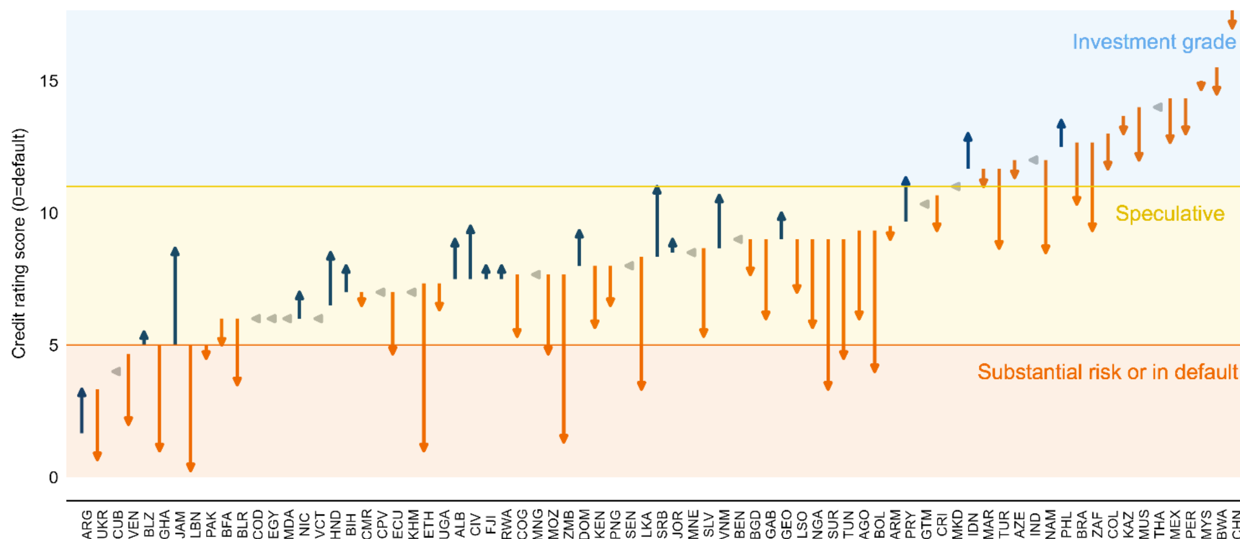
For their part, official bilateral institutions could do more. Bilateral institutions have been reducing their external exposure to EMDEs just at a time when more liquidity is needed. They are potentially a major source of the leverage that can be achieved in blended finance packages. FfD4 provides an opportunity for these agencies to map out their contribution to development finance.

4. Managing debt to expand fiscal space

The big push investment strategy described above has direct implications for debt and fiscal space. There is no doubt that the debt situation of most EMDEs is significantly worse today than in 2015 when FfD3 was taking place. Figure 4 below shows how average creditworthiness ratings have deteriorated since 2015. This deterioration is reflected in a reversal of private capital flows and an increase in the interest payments due on commercial borrowing.

Figure 4. Changes in developing country credit ratings from 2015-2025

Sovereign credit ratings Jan 2015 versus Jan 2025



Note: Vertical axis measures average credit rating of 3 major agencies: S&P, Fitch, Moody's with ratings converted to a 0 (default) to 21 (best rating) scale. Credit risk is classified as Investment grade (<=21 & > 11), Speculative grade (<=11 & >5), and Substantial risk or in default (<=5).
Source: Author estimates from scraping of Trading Economics and Fitch ratings 1/24/2025. Arrows indicate change from January, 2015 to January, 2025.

The current approach to managing debt has been spelled out by the IMF and World Bank under three pillars: (i) reforms and domestic resource mobilization to foster growth; (ii) incremental low-cost official financing; and (iii) liquidity relief through reprofiling or reducing debt service burdens. Unfortunately, this approach is not working and is unlikely to work. There is little evidence that reforms are enhancing growth (and medium-term growth forecasts by the IMF in its World Economic Outlook confirm that even that institution does not believe more rapid growth is likely).[27] The extent of incremental low-cost official financing is small, and insufficient to compensate for the outflows of private capital. There is a reluctance of MDBs to lend to LIVs. And the ability to reprofile debt through established institutional mechanisms such as the Common Framework or other agreements has proven to be unwieldy and slow. It may even have negative effects. The current assessment framework incentivizes countries to be less transparent and makes them hesitant to approach IFIs for early support for reprofiling or extending maturities, fearing the impact on credit ratings and market access.

The centerpiece of an alternative approach would start with a focus on effective investment. Most developing countries have opportunities for high-return investments—the median *ex post* return on projects in the poorest countries is

18%.[28] Additional opportunities, especially for adaptation to reduce future costs of climate shocks, have already been identified. A big push on investments would generate growth and, if combined with strengthened policies and institutions, would improve creditworthiness despite the associated rise in public indebtedness.[29] Political support from major shareholders for this approach is needed to encourage international financial institutions to operationalize it in debt sustainability frameworks and assessments.

To expand fiscal space in this way, FfD4 could lend support to an alternative three-pronged approach.

1. EMDEs undertake policy and institutional reforms, including the establishment of independent domestic fiscal councils or equivalent mechanisms to provide technical guidance on medium-term macroeconomic frameworks. Such councils could also provide greater transparency on public and publicly guaranteed debt, and on the asset value of the investments generated by the debt.

2. Development partners commit to support the development and execution of high-quality investment programs, based on country platforms in which local, foreign, public, and private partners participate and incorporate into risk assessments the costs of not making priority investments.

3. Partners provide sufficient financing to implement the programs, with a balanced use of official bilateral, multilateral and privately sourced funds.

   For countries facing debt distress, financing for investments must be coordinated with payments to existing creditors. To speed up such programs at the individual country level, it would be useful to have some global norms. For example, an expanded "development" debt service suspension initiative could be considered for LIV countries. A "development" DSSI extending from 2026-2030 would provide $150 billion in new liquidity even if limited only to bilateral creditors' debt service to IDA-eligible countries. For their part, multilateral and private creditors should be encouraged to provide fresh money for the incremental investments that would be financed. For market-access countries, similar debt reprofiling-cum-investment programming discussions could be informed by international financial institutions who could prepare alternative scenarios for growth, investment and long-run creditworthiness for the consideration of creditors.

> For countries not facing imminent debt distress, a more decentralized, demand-driven approach is preferable. Any country with an acceptable investment program could request support from its development partners, preferably through coordinated mechanisms as is now done through country platforms. To provide credibility that the supply of finance could expand to meet such demands, the aggregate amounts could be closely monitored and could trigger reforms that have already been identified in, for example, the G20 Independent Expert Group report.[30]

For small island states (SIDS), faced with more frequent and higher intensity natural disasters, the above approach may not be sufficient. Investments financed by debt could be destroyed by a disaster. In the event of such a shock, SIDS need immediate cash flow relief, best provided by extending natural disaster-related debt service suspension clauses in all new debt contracts, including those on multilateral debt. They also need greater access to concessional finance to compensate for loss and damage incurred, and to fund priority investments in adaptation and resilience.

Conclusion

There are many important elements of FfD4 relating to trade, technology, illicit financial flows, data, and reforms of the global financial architecture, including taxes. Most of these have been on the agenda for many years but there are no indications that a breakthrough is feasible during FfD4. Instead, FfD4 should shape a new narrative of the urgency of expanding investment in sustainable development at scale, with associated financing.

The timing of FfD4 is propitious. There is a need for fresh consensus building. Sustainable development feels stuck and the FfD4 process is a unique opportunity to negotiate a document of intent in a forum where each member state has an equal voice. There is an appetite for change in many capitals but a reluctance to simply put more funds into a system that does not seem to be delivering results with the speed and urgency that is needed.

Recent international gatherings have provided the sectoral and thematic foundation for FfD4. The climate and nature COP processes, the G20 action plans, and the reform programs of the Bretton Woods and other multilateral financial institutions each provide a piece of the puzzle.

The great opportunity for FfD4 is to integrate development, climate, and nature into a coherent sustainable development program. FfD4 is the only forum that can provide a political consensus on an overarching new strategy, so that supportive tactical details can be later worked out in their respective technical arenas.

The first element of this new strategy is to acknowledge and broadly quantify the significant new investments that EMDEs should undertake in the forthcoming one or two decades. The tactical details of designing and executing quality investments, with support from all development partners, can be worked out through country platforms.

The second element is to build a supportive financing strategy with a new approach to private finance and investments. Private finance is multifaceted. When steered through proper channels of blended and mobilized financing packages, private finance can be beneficial. When left unchecked, it can be expensive and volatile. "Know thy investment" principles for responsible private finance should govern private lending to sovereign entities.

The third element is to reset concessional aid for sustainable development and reflect on the role of all multilateral, bilateral, and national development finance institutions. Old aid concepts—including the 0.7% target—must be rethought in a new environment where aid must cover more issues, through more instruments, in more vulnerable countries. Methods and guidelines for effective aid allocation in this new context are needed. In parallel, multilateral and bilateral non-concessional lending can lead the way to expand pools of investable finance in all EMDEs.

Fourth, a fresh approach to fiscal space that encourages high-return, quality investments is needed. There is no chance of successful sustainable development or sustained improvement in creditworthiness without this. The current focus on bringing down debt/GDP ratios below arbitrary thresholds has biased fiscal policy toward underinvesting in human, physical, social, and natural capital and must be changed. An alternative that compares debt to the value of assets that are created through debt-financed investments is preferable.

Combined, these four elements could make FfD4 a turning point for how sustainable development in EMDEs is financed.

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