Delivering more and better finance to tackle interlinked development, climate and nature challenges

The UK sees the Fourth Financing for Development conference (FfD4) as a pivotal moment to secure global consensus on a modernised development finance landscape that addresses development, climate and nature challenges in an integrated way and forms the basis of a renewed global partnership for accelerating progress on the Sustainable Development Goals (SDGs).

We live in an increasingly contested world, where too many people face economic hardship; the gap between richer and poor countries is widening; and the effects of the climate and nature emergencies, and rising conflict and fragility, are intensifying desperate humanitarian need. The UK recognises the urgent need to unlock more finance for development, climate and nature to fight poverty while protecting the planet, to make the global financial system (GFS) more agile and shock responsive, and to strengthen the voices of the poorest and most vulnerable countries in the system. The UK continues to advocate for a better and fairer international system – one that delivers both fairer outcomes and fairer representation.

Genuine partnership based on mutual trust and respect must be at the heart of our approach to FfD4. The UK has signed up to the Paris Pact for People and Planet (4P) and sees read-across with priorities for FfD4. Initiatives such as the 4P and the Bridgetown Initiative demonstrate what can be achieved when we come together, driving progress on reform of the international system. FfD4 should build on these partnerships, but we know we need to go further and faster. The UK stands ready to build upon the progress made on the Addis Ababa Action Agenda, working with all UN members and other stakeholders to tackle these global challenges, delivering the collective prosperity and security we all need. The UK will continue to engage and listen to our partners throughout this process and will contribute further ideas as the process progresses.

Alongside mobilising more finance, we must ensure a focus on results, impact and evidence-based decision making, with country ownership at the centre. We should harness ‘enablers’ to drive the greatest and most cost-effective development impact and accelerate progress towards the SDGs. Innovations, new technologies, science and research, including data, digital and AI, are some of the greatest enablers at our disposal and should be a crosscutting objective for FfD4. We should focus on how actions can be best targeted to deliver inclusive and climate compatible growth, tackle conflict and instability and address the different vulnerabilities countries face – all the while putting women and girls at the heart of everything we do and mainstreaming the principle of leaving no one behind.

The UK believes FfD4 can be transformational if it focuses on the following priority areas:

1. Scaling up MDBs to increase their impact

The Multilateral Development Banks (MDBs), as the largest sources of development finance, are vital to creating a world free from poverty on a liveable planet. We need to accelerate reform of the MDBs so that they shoulder more risk, unlocking hundreds of billions more to help the poorest and build a low-carbon global economy. MDBs have already unlocked over $200bn over the next decade by implementing reforms, but there is further they can go.

Key actions

- Advocate for further ambitious implementation of the G20 Capital Adequacy Framework Review Recommendations, including on callable capital, to further stretch MDB balance sheets.
- Beyond this, scaling MDBs further where needed, through capital increases (including for IBRD) and strong concessional fund replenishments (including IDA and the ADF).
- Continuing to use innovative shareholder measures such as guarantees, hybrid capital, and viable options for channeling SDRs through MDBs (for those countries that can do so) to further scale MDB financing capacity.
- Champion greater voice for the lowest income and most vulnerable countries on the World Bank and IMF Boards – while strengthening Regional Development Banks, such as the African and Caribbean Development Banks where countries from those regions own more than 60% of the shares.

2. Disaster risk finance

The GFS needs to be more shock responsive and act more rapidly in the face of crises. The use of pre-arranged finance (PAF) should be scaled up and strengthened, supporting the use of disaster risk financing, including insurance, to reach people and communities more quickly and reducing the cost of response in the long-term. Early action reduces the cost of the response overall and accelerates recovery, with $1 paid yielding $3-4 in benefits. Despite these benefits, PAF remains a small proportion of international crisis financing (current estimated to be just 1%) and is concentrated in Middle Income Countries - this should be scaled up more widely.

Key actions

- Improve the shock responsiveness of International Financial Institutions (IFIs). IFIs should build greater flexibility into their financing – building on the new World Bank crisis toolkit launched last year - and adopt climate resilient debt clauses.
- Action to progress new and innovative mechanisms for supporting disaster risk financing, including insurance, pressing for international commitments on increasing PAF (well above the 1% of global crisis finance currently provided), scaling risk pools and advisory support, and securing greater access to climate finance for disaster risk financing.

3. Private capital mobilisation

The Addis Agenda recognised the limits of public resources and focused attention on new sources of private capital that needs to be mobilised rapidly. While progress has been made, FfD4 offers an opportunity to galvanise action, mobilising private capital at scale both domestic and international. The stock of private institutional capital is estimated to amount to $98 trillion globally, with $48.1 trillion in pension funds in OECD countries alone. Reorienting just a fraction more of this towards low- and middle-income countries could be transformative.

Key actions

A multipronged approach is needed to target constraints and unlock capital. FfD4 should include a political call targeting priority actions to mobilise private finance for maximum impact, including by:

- Committing to reforming MDBs and Development Finance Institution (DFI) business models to encourage greater crowding in of private finance – including the "originate to share" model recently adopted by IDB Invest to systematically transfer risk to the private sector and free up MDB/DFI capital for originating new assets at scale.
- Agreeing to scale efforts on building a bigger pipeline of investment-ready projects, including in low carbon, climate resilient infrastructure. This could build on existing partnerships with the Private Infrastructure Development Group (PIDG) and the Alliance for Green Infrastructure for Africa (AGIA).
- Deepening local capital markets so more domestic finance is invested in productive assets such as climate resilient infrastructure. Alongside this, tackling foreign exchange risk by promoting local currency financing and exploring solutions to mitigate currency risk.
- Taking steps to identify and tackle unintended consequences of financial regulation that impede the flow of capital to emerging markets.
- Working with institutional investors, such as pension funds and insurers, paving the way for more investments in emerging markets and developing economies by improving the availability, quality and accessibility of data. This will allow investors to better price risk, building on the launch of Hamburg Data Alliance, tackling the unintended consequences of financial regulation, and driving more standardisation across investment platforms.
- Promoting a common approach between OECD and MDBs to measure private capital mobilisation to facilitate better reporting.
- Continuing to innovate, for example through demonstrating how stock exchanges/public markets can help raise finance from investors for emerging markets for climate and development, building on the UK's MOBILIST programme.

4. Domestic public resource mobilisation and international taxation

To deliver the SDGs, it is essential that partner governments are supported to raise and spend their own revenue sustainably, effectively and progressively, and that citizens and all businesses pay their fair share of tax. At Addis, the UK – with others – launched the Addis Tax Initiative which now brings together 76 partner countries, development partners, and supporting organisations to boost support for tax programmes, capacity and reform. Complementary efforts are also underway to strengthen public financial management systems and to deepen fiscal transparency and accountability.

Beyond domestic resources, we must ensure that the international tax system enables countries to secure the revenues that they are owed, including through Country by Country reporting and implementing the new global minimum tax, and that developing countries have a stronger voice in shaping international tax rules. Many partners have also proposed new global taxes and levies to raise new revenue streams that address climate challenges. FfD4 offers an opportunity to address the increasing complexity and fragmentation of the architecture, including by better coordinating how climate, development and wider finance comes together at country-levels.

Key actions

- Commitment to building capacity and capability in low-income countries to support progressive and equitable tax and public financial management systems, and improving development partner coordination.
- Enhance the effectiveness and impact of development and climate financing through robust public financial management systems and greater fiscal transparency.
- Agreeing a strong vision for how the climate and wider finance architecture comes together at country-level to deliver coherent, coordinated support for country-led climate plans which are aligned to long-term growth and development goals.
- Political commitment to enhance company ownership transparency, building investor confidence, particularly in high-risk sectors, and preventing illicit actors from operating with impunity by hiding behind a veil of secrecy. Improving the accessibility of this information will empower stakeholders and support law enforcement to trace and return stolen assets.
- Support low- and middle-income countries obtain the revenues they are owed from the international tax system, including through rolling out Country by Country reporting and supporting implementation of the Global Minimum Tax.
- Political commitment to strengthen the voice of developing countries in existing international tax architecture.
- Political commitment for new, innovative international revenue streams in key sectors, such as international maritime levies.

5. Tackling unsustainable debt

To effectively tackle unsustainable debt, we must both address immediate liquidity challenges and the underlying drivers of unsustainable debt. FfD4 should secure a global partnership to tackle this, creating fiscal space for developing countries to tackle other crises, such as climate resilience, combined with wider efforts to strengthen debt transparency.

Key actions

- Improve debt management and governance through enhanced capacity building, transparency by all creditors and debtors, improved lending and borrowing practices to ensure that debt that issued is sustainable.
- Call on all creditors, including private sector, to offer Natural Disaster Clause by the end of 2025, which allow countries to pause debt repayments when they are hit by natural disaster.
- Call for Majority Voting Provisions to be incorporated in private lending to pre-emptively increase debtors' resilience and ensure more efficient restructurings.
- Revising the IMF and WB Debt Sustainability Framework to tackle issues raised by developing countries, capture climate and nature risks better, alongside ensuring that adaptation investments are properly taken into account.
- Stepping up efforts to strengthen and speed up the G20 Common Framework to address existing debt problems faced by many low-income countries to ensure they can access timely and effective debt relief to restore debt sustainability.
- Commitment to increase voice and channels for engagement for the poorest and most vulnerable countries to shape the debt architecture, including through the Global Sovereign Debt Roundtable.