Input for the FfD4 Elements Paper by the World Benchmarking Alliance

About the author organisation

The World Benchmarking Alliance (WBA) is a global non-profit, that assesses the world's 2000 most influential companies on their contribution toward the Sustainable Development Goals (SDGs) and Paris Agreement. From its insights and evidence of companies' performance, WBA can see a clear corporate accountability gap, where companies, including financial institutions, are not yet achieving the needs of sustainable development through business transformation. To close the gap, there needs to be clear articulation of business responsibility within global sustainability agendas. The Fourth International Conference on Finance for Development (FfD4) process provides a good opportunity to do so, given that actions and commitments to achieve the SDGs must be fulfilled by all actors, including the private sector. Addressing the SDG financing gap needs systematic and collective efforts from all financial system stakeholders.

A global financing framework

The current financial system does not support the financial needs to achieve the SDGs and the Paris Agreement, particularly in Emerging Markets and Developing Economies (EMDEs). The current SDG $4 trillion financing gap in EMDEs needs bolder commitments from all actors of the financial system including public, development and private finance institutions.

Additionally, the disparity in money flows for the SDG and climate action between developing and developed countries is vast and expanding, proving systemic inequalities in the global financial architecture. While calls and efforts on reforming the international financial architecture are promising, concrete actions and clear accountabilities of different actors should be put in place and enforced. WBA's work focuses on the progress of the 2000 most influential companies around the world. Our assessments include real economy companies as well as 400 financial institutions. From this area of focus and expertise, we believe that to create an effective, just and inclusive global financing framework, the FfD4 should:

- **Reaffirm and strengthen the UN's leadership** in global efforts on finance for development through the FfD process and its outcome commitments. The Annual Forum should be utilised as a platform for assessing progress made against FfD commitments, particularly to ensure that the commitments made by the private sector are monitored, evaluated and their actions are held accountable. Achieving corporate accountability is a multistakeholder, inclusive process, and the Forum can also encourage wider participation from key actors such as youth, CSOs, grassroots organisations and the private sector while rotating its location to ensure broader regional participation.
- **Streamline private sector participation** in formal multilateral negotiations or processes. Private capital represents a core gap in financing economic growth and development in EMDEs and systemic engagement and accountability of private finance is no longer a niche topic to shy away from. Establishing the Steering Committee on the Private Sector as part of the FfD4 processes is a good step in this direction.
- **Scale up cooperation** between public, development and private finance stakeholders to align investments with SDG priorities. This includes increasing the mobilisation of private capital through blended finance and de risking investments to allow private sector flows into EMDEs. **Policy and regulatory reforms** supported by MDB institutional capacity building efforts are equally important and should create an enabling environment for international investment. Fostering cooperative approaches such as Public Private Partnerships (PPP), especially for high impact sectors or MDB Country Platforms is also an effective way for strengthening collaboration with the financial system to achieve the SDGs.
- **Improve monitoring and follow up systems** to ensure that the private sector participants in the global financial system remain accountable to their commitments. The Addis Ababa Action Agenda included promising and strong actions in areas related to regulatory reforms, international cooperation and private sector engagement, however, due to poor monitoring and follow up, the progress made fell short of the intended outcomes, including of companies and financial institutions.

As an international non-profit, WBA also recognises other reforms which can be taken forward through the FfD4 process, to ensure that the entire ecosystem is operating effectively. These include:

- **Align multilateral efforts**: Other multilateral organisations such as the OECD, G20 and G7 along with regional policy institutions like the European Union, ASEAN and the African Union must align their development financing cooperation efforts with the UN and engage at the highest levels possible in key UN FfD processes. The articulation of business and financial institution responsibility should be included in all multilateral efforts so there is a clear, coordinated and consistent signalling of priority actions that must be taken by the private sector by all intergovernmental actors.
- **Enhance inclusive multilateralism**: Encourage new approaches for multilateral cooperation that amplify the voices and needs of less represented groups in low and middle income countries. **Expand South-South cooperation** and trade between developing countries (accounting for more than 25% of global trade) and encourage knowledge sharing and technology transfer to address common issues such as climate resilience, agriculture and digital transformation. The review of multilateralism is an opportunity to ensure that companies' engagement in any processes is transparent and accountable.
- **Scale up MDB's financial capacity** by applying the recommendations of the G20 independent review of the Multilateral Development Banks' Capital Adequacy Framework to optimise their balance sheet and expand their lending capacity by up to $500 billion. Improve the quality of MDB operations by addressing the speed of transactions and project approval processes and applying fast track approval mechanisms for priority projects in low income countries.
- **Increase the representation of civil society organisations and marginalised groups** in the decision making processes of multilateral organisations, moving beyond the current consultative nature of CSO engagement. Additionally, governments should commit to engaging and promoting dialogue with civil society in their national SDG plans.

Action areas

a. Domestic public resources

The G20 estimates $2 trillion of domestic resources mobilisation and local finance is needed to close the SDGs financing gap. To foster this ambitious target and ensure resilient local financial systems, we recommend FfD4 Member States to consider the following:

- **Ensure SDGs are integrated into national budgetary planning:** All public expenditures and procurement processes should align with national SDG priorities and do not violate core social and environmental conventions.
- **Integrate national SDG targets into fiscal policies**: Where feasible, direct certain budget lines toward financing the implementation of the SDGs. A national SDG financing framework could help outline how national SDG priorities will be financed through a mix of development, public and private resources.
- **Expand the issuance of sovereign SDG linked bonds**: These bonds, with proceeds earmarked for their national SDG priorities, can attract both domestic and international private capital toward financing development projects.
- **Remove harmful subsidies**: Redirect subsidies that undermine climate action and sustainable development such as fossil fuels, agriculture and fisheries (estimated at over $7 trillion a year, or around 8% of the global GDP according to the World Bank) toward SDG aligned investments.
- **Strengthening tax systems**: Tax avoidance and underpayment, largely through corporate profit shifting and the use of tax havens, amounts to approximately $500 billion annually. Reforming tax systems and applying effective tax policies should generate significant revenues to finance the SDGs. Governments should tax environmentally harmful activities such as natural resource exploitation, carbon emission production and pollution, while improving tax collection systems and enhancing tax transparency and accountability through robust reporting mechanisms.

b. Domestic and international private business and finance

The reform of the international architecture was a key focus of the Pact for the Future and was acknowledged through Actions 47-52. However, there is a lesser recognised commitment in the Pact that lays a strong foundation for understanding the expectations of private business and finance in global agreements. Action 55 (c) commits Member States to *'encourage the contribution of the private sector to addressing global challenges and strengthen its accountability towards the implementation of United Nations Frameworks'*. This is a notable shift in discourse from recognising the role and potential of the private sector - both real economy companies and financial institutions - to acknowledging its responsibility and accountability in implementing UN frameworks.

For instance, the current FfD outcome document recognises the importance of developing dynamic domestic private sectors to achieve the SDGs and strengthen an enabling business environment. It also details how private business and investments are major drivers of productivity, inclusive economic growth and job creation, and that inclusive and sustainable business development can play a crucial role in the realisation of other major development objectives. What it does not detail is what it expects of private business and finance in order to achieve the goals. Therefore, FfD4 process represents an opportunity for Member States to articulate some of the key responsibilities of private business and finance to strengthen the FfD outcomes.

The FfD agenda is at the heart of sustainable development, acting as a strategic pillar of other UN processes such as Second World Summit on Social Development and COP 30. The FfD is vital global process for UN Member States to strengthen and develop global norms and targets on what is expected on private business and finance to deliver on UN frameworks. In this regard, firstly on finance, we recommend the following:

- **Set a quantifiable target for private finance in SDGs**: Achieving the SDGs and tackling climate change requires an annual investment of $500 billion from private capital. Some other estimates suggest that an even higher contribution from the private sector is needed to close the financing gap. However, current levels of private capital for SDGs in EMDE are insufficient. Without taking into the account the additional needs, Foreign Direct Investment (FDIs) alone in developing countries declined by 7% to $867 billion in 2023.

To address this gap, private finance needs to be channelled at scale in EMDEs. It is widely accepted that there is sufficient capital available within the private sector to close the funding gap. However, even within the existing financial system frameworks, demand signals from long term institutional investors are too low. Whilst longer term structural changes are needed of the development financial system, within existing fiduciary duty boundaries there is a critical need for institutional investors to increase their portfolio allocation to these EMDEs. The World Economic Forum and the UN Secretary General's High Level Expert Group on Climate Finance have also both advocated for setting clear quantifiable targets on mobilising private finance for the SDGs and climate action.

- To address the challenge around demand signalling from long term institutional investors, we recommend that Member States agree a global norm on the responsibility of institutional investors to commit to allocating at least **10% of their proprietary portfolio assets to SDG-aligned activities in EMDEs**. These should be aligned with the Climate Bonds Initiative taxonomy, relevant regional taxonomy or recognised international standard. Setting such a target would normalise private sector investments sending an important demand signal to trigger innovation and resource allocation. It would also help improve market size, liquidity and therefore ultimately the cost of capital.
- **Ensure private finance is accountable for delivering the SDGs** by developing a robust due diligence framework that compels financial actors to engage with their Environmental, Social, and Governance (ESG) risks. Without such a framework, there is a heightened risk that private capital may inadvertently harm ecosystems, deepen social inequalities, or perpetuate governance challenges that undermine progress on the SDGs. A due diligence framework ensures that private investors and financial institutions take proactive steps to identify, assess, and address their ESG impacts, promoting accountability and transparency. This will not only reduce the likelihood of unintended negative consequences but also foster more responsible investment practices that support inclusive and sustainable development. By integrating SDG considerations into investment decision-making, private finance can become a powerful force for advancing the SDGs, helping to mitigate risks while promoting long-term resilience and shared prosperity.
- **Create global SDG taxonomy**: A global SDG taxonomy would harmonise private investments globally, help investors align investment decisions with a

global standardised framework and mitigate the risk of greenwashing. This taxonomy should classify SDG- aligned investments and prioritise high impact sectors and critical issues such as adaptation and gender equality. The taxonomy should allow countries to align with their national development plans and ensure investments reflect local needs, especially in emerging markets. The global SDG taxonomy should build on widely accepted standards such as the EU Sustainable Finance Taxonomy and the IFC Principle for Impact Management.
- **Provide an enabling environment for international private finance**: Governments should create smart incentives for private sector SDG-aligned investments. This could involve redirecting harmful subsidies towards SDG-focused projects and offering offer tax credits and performance based incentives to lower the cost of compliance and investment risks.

Secondly, with respect to real economy companies, we recommend the following:

- **Articulate the responsibility of companies with respect to a global living wage in the process leading up to and during the Second World Summit on Social Development.** Paying a living wage to workers is the single most transformative thing businesses can do to help reduce global inequality and advance the SDGs. Globally, 630 million people are in working poverty, earning under US$3.20 per day, and 327 million wage earners are paid at or below minimum wage, representing 19% of all wage earners. If companies paid their millions of workers a living wage, and ensured their suppliers did the same, the benefits would extend far beyond lifting those individuals out of poverty to their families and communities, creating a multiplier effect on society. However, companies cannot do this alone. In order for businesses to commit to doing this, there needs to be a global norm and clarity on the responsibility of individual companies, working towards a level playing field.
- **Paris Agreement and COP30:** The FfD4 could help with expressing the need to articulate the responsibility of the private sector under the Paris Agreement. Articulating their responsibility would help strengthen their accountability toward the implementation of the Paris Agreement. The absence of this articulation of private sector responsibility leaves a gap between the national mitigation and financing goals set under the Paris Agreement by Parties and the implementation efforts by Non-State Actors (NSAs). It is therefore important to systematically call on Parties to

incorporate the role and responsibility of NSAs in all relevant UNFCCC programmes, negotiated text, processes, frameworks and reporting arrangements that are currently supporting the implementation of the Paris Agreement.

Thirdly, the following ecosystem reforms would enable all of the private sector to play an implementing role in global agendas:

- **Leverage blended finance:** Public and development institutions should attract private capital to high risk markets by providing first loss guarantees, political risk insurance and increasing concessional finance, especially to low income countries. The private sector provided 49% of total climate finance ($625 billion), though it is concentrated in advancing economies. This demonstrates the potential to attract private capital with the right conditions.
- **Mandate sustainability reporting**: The private sector must be required to report on sustainability and climate performance, using the principles of double materiality. **Voluntary reporting** has led to fragmented and inconsistent disclosures, and difficulty in assessing the actual impact of the private sector, even though the majority of large companies report on sustainability. Governments must use the FfD4 to mandate sustainability reporting and integrate it into their regulatory systems, aligning it with globally recognised frameworks such as ISSB and GRI. To enhance implementation, countries should expand cooperation with international financial institutions to provide the needed capacity building to regulatory authorities and companies on the use of such frameworks.
- **Ensure alignment between private capital and national SDG priorities**. Governments with the support of international organisations and IFIs should maximise efforts to create SDG investment ready pipelines. This includes regularly developing Integrated National Financing Frameworks (INFF) that outlines private sector investable opportunities and ensure coherence between public policy and international private investment flows.
- **Strengthen domestic capital markets**: Strengthen domestic capital markets would allow local businesses to access finance and invest in local sustainable solutions. Countries, through financial regulatory authorities should cooperate with IFIs to expand the domestic sustainability-linked bonds market.

c. International development cooperation

WBA does not assess countries. Given our expertise is related to private sector progress, we do not have evidence based recommendations under point c.

d. International trade as an engine for development

International trade accounts for more than 60% of global GDP, which can be catalytic for economic development and eradicating poverty in many countries. However, LDCs account for only 1% of global exports and have significant trade barriers such as poor infrastructure, weak regulations and tariff and non-tariff barriers. To empower these countries and rebalance international trade, member states should consider the following:

- **Remove tariff and non-tariff barriers** on goods from LDCs and support their participation in international trade by adopting preferential trade agreements.
- **Scale up development assistance** to enhance trade-related infrastructure and capacity in LDCs that rely mainly on primary commodities. Support should also focus on building their industrial capacity and improving their logistics.
- **Encourage and support the implementation of trade agreements** to remove trade barriers including tariffs and enhance international market accessibility. The African Continental Free Area (AfCFTA) is a great example aiming to create a single African Market, which could boost intra-African trade by 40%.

e. Debt and debt sustainability

WBA does not assess countries. Given our expertise is related to private sector progress, we do not have evidence based recommendations under point e.

f. Addressing systemic issues

Ensuring that the responsibility of private finance and companies is articulated in UN and intergovernmental processes will address a systemic issue of the lack of accountability that there is on private sector participants and in the role they play in meeting global agendas. WBA's focus in on multinational companies with dominance and influence globally.

In addition, under (f) it is important to ensure that financial inclusion measures are applied at scale to limit the exclusion of disadvantaged groups in low-income countries and enhance their participation in the formal economy. Countries, through the FfD4, should make commitments to increase financial flows to small and medium enterprises (SMEs) which struggle to access traditional banking resources.

g. Science, technology, innovation and capacity building

Emerging technologies such as AI and digitalisation have been disruptive and transformative in key SDG sectors such as health, agriculture and energy. It is estimated that AI alone will add $15.7 trillion a year by 2030, contributing to a 14% increase in the global GDP. Digital rights is the one issue where Member States have been more explicit on what they expect from the private sector. The recently adopted Global Digital Compact is an important step forward in verbalising the standards that companies are responsible for adhering to given their unique impact on our society.

However, one piece of the puzzle is still missing: clear consequences for companies that fail to prioritise the goals set forth in the Compact. The Compact calls on digital technology companies to ''co-develop industry accountability standards.'' Accountability can be exceptionally hard to enforce when dominant companies co-create the standards for it.

True accountability requires concrete enforcement mechanisms, which are not clearly defined in the Compact. The Compact's signatories must recognise its limited stipulations on corporate accountability and work towards addressing it if they are to ensure that there are clear consequences for companies that fail to prioritise the Compact's goals.

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Data, Monitoring and Follow up

The Addis Ababa Action Agenda introduced very promising actions in areas such as debt restructuring, tax cooperation and private sector responsibility. However, follow up and accountability have lagged. To ensure the FfD4 delivers on its commitments and tracks progress effectively, we recommend the following:

- **Create a centralised framework** to track all commitments made by the private sector. The framework should consider creating a platform that displays efforts made by actors and provide real time data on the SDG financing progress. The framework should consider establishing a regular review (stocktake) process to formally track progress made.
- **Promote the establishment of follow up and accountability mechanisms** to aggregate data on efforts made by companies, assess alignment with national commitments and report to the centralised FfD platform.
- **Encourage participation of citizens and civil society organisations** in tracking FfD commitments, as they have also have a key role to play in the accountability process. Also, **encourage ESG data and rating** producers to ensure their methodologies and assessments of financial institutions align with actions outlined in the FfD4 outcome document.
- **Align and integrate FfD monitoring and follow up efforts** with existing UN SDG and climate accountability systems such as the High Level Political Forum and the UNFCCC global stocktake moments to avoid duplication.
- **Empower and expand the reach of existing UN SDG linked data platforms**, such as the Global Partnership for Sustainable Development Data and its initiatives such as Data for Now and Power of Data which aims to improve the quality of SDG data in developing countries.
- **Strengthen and invest in modernising national statistical systems** to ensure effective data collection and analysis at the national level.
- **Encourage collaboration between governments, regulators, IFIs, private sector and ESG data and rating providers** to ensure assessed private sector institutions are engaged and aware of their assessment processes.

Overarching reflections:

The FfD4 provides a unique opportunity for all financial system stakeholders to rethink and revolutionise the current global financial system, which does not currently deliver the needed resources to address the most critical issues of our time. While the gap estimates, the guiding standards and frameworks, and the instruments needed are all in place, what remains missing is the strong will and determination to act.

The SDG financing gap in EMDEs is widening and the systemic risks associated with failing to address this gap could be harmful not only for these countries but for the global community as a whole. Countries trapped in debt, with poor regulatory and fiscal policies and an economic dependence on aid need support and relief by the international financial community.

The FfD4 is a critical process that must listen to the voices of all actors, especially those who are most of need to financial flows to address severe climate impacts and social inequalities. The FfD4 should articulate clear responsibilities not just of public institutions, but also the private sector, and hold them accountable for delivering financing commitments. To achieve any commitments made, the FfD4 should set and enforce regular monitoring and follow up mechanisms to track progress and allow participation of all actors.

The FfD4 should introduce a bold roadmap for reforming the international financial architecture to make it effective, just and inclusive by increasing the representation of developing countries – who are the main beneficiaries of this system- in decision making processes. Reforms must also accelerate the speed of operations and the responsiveness of the system to crises.