Facts and Figures

The opportunity at FFD4

Through collective efforts to mobilize financing for sustainable development and realize an international financial architecture that serves the needs of all countries, the world can tackle poverty, inequality, hunger, education, the climate crisis, and all 17 Sustainable Development Goals (SDGs).

Investing in sustainable development is not a sectoral endeavor; an investment in one area creates ripple effects throughout the entire economy, creating positive impacts at all levels:

- Every $1 spent on girls' education can generate a $2.80 return – equivalent to billions of dollars in extra GDP.
- Every $1 invested in water and sanitation saves $4.30 in healthcare costs.
- $1 per person per year in fighting non-communicable diseases can prevent close to 7 million deaths by 2030.
- Every $1 invested in disaster risk reduction saves up to $15 in post-disaster recovery.

Investing in sustainable development reduces conflict, stabilizes economies and prevents costly humanitarian crises.

The financing gap

The world stands at a crossroads for financing sustainable development with an estimated annual financing gap of $4 trillion - up from $2.5 trillion pre-pandemic. For comparison:

- Fossil fuel subsidies cost 7.1% of global GDP—more than annual government spending on education (4.3%) and about two-thirds of healthcare spending (10.9%)
- The global economic cost of wars in 2023 exceeded $19 trillion.
- The richest 1% amassed $42 trillion in new wealth over the past decade.

The additional financing required to close this $4 trillion gap – stemmed from underinvestment and rising development needs – places a disproportionate burden on developing countries. The largest gaps are in energy and water and sanitation, and are substantial in many other sectors as well, including transportation and telecommunication, investment in eliminating extreme poverty and hunger, environmental sustainability, health and education.

However, it is important to remember that the cost of inaction is even greater: climate inaction alone is projected to cost nearly five times the amount needed to limit global warming to 1.5°C.

The international financial system

The current global financial architecture does not meet the needs of developing countries:

- Developing countries pay interest rates that are at least two times higher than those of developed countries.
- Average interest rates charged by private creditors to developing countries are at a 15-year high.
- Capital flow volatility is a major source of concern for macroeconomic and financial stability in developing countries. Developing countries are overly sensitive to some global financial factors that are beyond the influence of domestic policies.
- The coverage of the various layers of the Global Financial Stability Net (GFSN) is uneven.
    - The precautionary accumulation of foreign reserves by developing countries - undertaken as a safeguard against the risks associated with financial globalization - can entail significant economic costs.
    - Many developing countries do not have access to bilateral swap lines arrangements extended by central banks in major economies.
    - Bretton Woods institutions such as the International Monetary Fund (IMF) and the World Bank have universal coverage. However, decision-making power in financial institutions remains skewed toward richer nations. Special Drawing Rights (SDR) allocations by the IMF have disproportionately benefited developed countries, with low-income countries receiving less than 2% - equivalent to 10.5 billion SDRs - of the total allocated.
- Financial and banking regulation within developed countries is a key driver of capital flows to developing countries. International, or regional and national financial and banking standards in developed countries, may adversely affect developing countries' financing.
- There are considerable differences in cross-border payments costs, across countries. For remittances for instance, as of Q3 2024, the global average costs of sending $200 stood at 6.62 percent, while Sub-Saharan Africa had a cost of 8.45% on average.

Debt sustainability

The heavy debt burden, coupled with vulnerability to unforeseen shocks, has severely limited the ability of developing countries to invest in their own sustainable development:

- Developing countries spent a record $1.4 trillion servicing external debt in 2023, a 20-year high.
- In 2024, more than 1.1 billion people lived in developing countries where the debt service on external debt accounts for more than 20 per cent of general government revenue; and close to 2.2 billion lived in developing countries where the percentage is above 10.
- Median debt service on external debt in developing countries continues to be on an upward trend, reaching 11.4 per cent of government revenue in 2024, more than doubled over the past 15 years.
- Approximately 3.3 billion people live in developing countries where debt interest payments exceed spending on education or health.
- Interest payments are growing faster than expenditures on education or health in developing countries.

The sources of finance

Official Development Assistance (ODA): Many developed nations have not lived up to their long-standing commitment of allocating 0.7% of Gross National Income (GNI) to ODA. In 2024, ODA by member countries of the OECD's Development Assistance Committee (DAC) amounted to USD 212.1 billion, representing only 0.33% of DAC members combined GNI. Meeting ODA commitments would provide over $150 billion per year in additional resources.

Climate Finance**:** The UNFCCC's $100 billion annual climate finance target, originally set for 2020, was met in 2022, with developed countries delivering $116 billion. At COP29 in Baku, the New Collective Quantified Goal (NCQG) set two main targets:

- $300 billion per year by 2035 –for developing nations, with developed countries taking the lead, through public and private, bilateral and multilateral finance primarily mobilized by public funds.
- $1.3 trillion per year by 2035 – a broader global target to be mobilized from all sources.

Private Climate Finance**:** Estimates by the Independent High Level Expert Group on Climate Finance suggest that around 50% of the $1.3 trillion target set by the NCQG, or $650 billion, could come from cross-border private finance and the other half from international public funds. This would imply a 15- to 18-fold increase over current levels.

Multilateral Climate Finance: At COP29, MDBs committed to collectively reach $120 billion in climate finance for low- and-middle-income countries by 2030, up from $75 billion in 2023. MDBs also aim to mobilize $65 billion from the private sector annually. The call to triple the lending capacity of MDBs and consider longer loan tenors is crucial to support climate action for developing countries.

A global SDG investment push

Recognizing the $4 trillion SDG financing gap, FFD4 aims to deliver a large-scale, impact-focused SDG investment push, alongside ambitious reform of the international financial architecture. To catalyze sustainable development investment at scale and to close the financing gap with urgency, FFD4 aims to facilitate:

- Tripling MDB lending capacity, significantly scaling up all public development bank lending, and having national, regional and multilateral development banks work together better as a system.
- Addressing barriers to private investment in developing countries and scaling up and standardizing blended finance.
- Reducing the cost of capital for developing country sovereigns, by enhancing liability management support, reviewing financial regulations and the role of credit rating agencies.

This investment push is qualitatively different from the 'billions to trillions' concept often associated with the Addis Agenda: first, impact is at its core, recognizing that finance and investment are means to achieve shared goals, not an end in itself. All financing must be guided by, and accountable to, sustainable development outcomes. Second, it will be publicly led, with a central role for public development banks, and with private finance mobilized for impact on public purpose. Third, it must support country-owned and led priorities, with countries defining their investment priorities and plans.

Reforming the global financial architecture

The international financial system must evolve to meet modern challenges and ensure fair global cooperation. This includes:

- A more inclusive development cooperation architecture, both nationally, with country-led strategies and inclusive country platforms, and globally, through a strengthened UN role for dialogue among all actors.
- Establishing a development-oriented debt architecture.
- Reforming credit rating agencies to provide fairer assessments for developing economies.
- Enhancing developing countries' voice and representation in the international financial institutions.