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Reference Response to Call for inputs for the Elements Paper by Co-Facilitators of the Outcome Document of the Fourth International Conference on Financing for Development (FfD4)

Inputs provided by UNEP’s Finance and Economic Transformations Enabling subprogramme

“What are the key financing policy reforms and solutions that the fourth International Conference on Financing for Development should deliver? How could the Conference strengthen the follow-up process, to ensure accountability to and full implementation of commitments made?”

As the global community faces mounting challenges in achieving the SDGs by 2030, there is a critical need for a reformed global financing framework. FfD4 presents a pivotal opportunity to reassess and enhance the mechanisms through which the international financial architecture supports sustainable development, particularly in low and middle-income countries (LMICs).

The intersection of debt sustainability, climate change, and economic development requires innovative, yet effective solutions that align with long-term global goals. This submission advocates for a forward-looking approach that integrates climate and nature-related risks into financial frameworks, promotes sustainable debt management, enhances the efficiency of international financial cooperation and catalyzes and aligns private finance with the SDGs. By focusing on these critical areas, FfD4 can lay the groundwork for a more resilient and inclusive global economy that is capable of addressing both existing and emerging challenges.

**1. Global Financing Framework (including cross-cutting issues)**

* The current global financing framework demands urgent reforms to support a more resilient and inclusive international financial architecture. Additionally, as underscored in the forthcoming UNEP-University of Oxford policy brief on Enabling Adaptation, integrating climate and nature-related risks into DSAs is critical. This approach ensures that financial assessments align with the realities of vulnerable economies, providing a more accurate basis for policy decisions.
* Furthermore, mainstreaming development and environmental considerations into national budgets through tools like the Sustainable Budgeting Approach (SBA) can help achieve these goals. By embedding climate and nature considerations into fiscal planning, countries can better align their expenditures with long-term sustainability objectives. This strategy is more effective than single-issue programs, which often fail to address the interlinked challenges of climate change and economic development. The urgency of the global crisis demands holistic solutions rather than a piecemeal approach that focuses on “low-hanging fruit.”

**2. Action Areas**

**Domestic public resources**

* Efficient public spending is an important step to create much needed fiscal space in the tight financing conditions. Yet, current public spending still remains largely misaligned with the SDGs. In response to energy crisis in 2022, global fossil fuel subsidies have hit the record high reaching USD 1.5 trillion, according to [the Fossil Fuel Subsidies Tracker](https://fossilfuelsubsidytracker.org/), while the global agricultural subsidies amounted to USD 540 billion in 2022, 87% of which turned out to be price distorting and environmental harmful according to [the Global UN report 2021](https://www.unep.org/resources/repurposing-agricultural-support-transform-food-systems).
* By reducing inefficient perverse initiatives, public investment in other essential social services such as health and education could increase.
* A systematic tracking tools such as [the Sustainable Budgeting Approach](https://greenfiscalpolicy.org/policy_briefs/the-sustainable-budgeting-approach-sba-a-novel-decision-support-tool-to-identify-integrated-solutions-to-national-development-and-environmental-challenges/) that allow countries to assess the impact of national budget on sustainability would be instrumental to this end. Such a tools can improve the transparency and accountability of public spending and investment which can further foster private investor’s confidence in SDG investment.
* By integrating SBA into national budgeting, countries can ensure that their expenditures are not only sustainable but also strategically aligned with climate and development goals​. This approach offers a comprehensive solution that addresses the multifaceted nature of the challenges at hand, emphasizing the need for coordinated efforts across sectors and stakeholders.

**Domestic and international private business and finance**

* Coherent policy measures are needed to mobilize long-term private financing and investment to transition to sustainable economies across developed and developing countries. Four actions could help create the enabling conditions to redirect private finance towards sustainable development at national, regional and international levels in the long-term:
* First, accelerate the adoption and interoperability of sustainable finance policy frameworks to catalyze financing for sustainable development and align business and finance with sustainability goals. Ensure the harmonization or interoperability of sustainable finance policy & regulatory frameworks across jurisdictions to facilitate cross-border financial flows to accelerate the transition to sustainable economic activities. Financial institutions need globally consistent regulatory standards, guidance and definitions for sustainable economic activities and transition finance. Supervisory and prudential frameworks need to better capture risk exposures from unsustainable economic activity with coherent approaches across countries.
* Second, promote a whole-of-government approach with long-term, proportionate policy measures. Sustainable finance policy needs to be part of wider economic and financial policies and tools that together create enabling conditions for economic transformation. Connecting sustainable finance policy reform with broader fiscal and regulatory tools, including industrial, sectoral and permitting policies and regulations, as well as pricing negative externalities, can create the incentives for investment in sustainable technologies, business models and economic activities to contribute to sustainable development.
* Third, advance internationally aligned globally-recognized standards for corporate disclosure and impact management, with due diligence frameworks and coordinated transition pathways to steer real economy sectors towards sustainable consumption and production.
* Fourth, incentivize sectoral transitions and impact management to address the negative impacts of investments and align financing with the SDGs to achieve positive impacts. Globally-harmonised taxonomies linking industry activities to the SDGs can help manage and monitor SDG-aligned investments, with support mechanisms and policies to financially incentivize them.

**International Development Cooperation**

* International development cooperation needs to reconceptualize the way that it promotes inflows and outflows. Regarding inflows, it will be important for FfD4 to continue emphasizing that ‘developed’ countries meet their ODA/GNI commitments of 0.7%. This needs to be achieved in a way that does not overlap with other commitments such as but not limited to climate finance, which was meant to serve as a mutually exclusive form of resource mobilization. In that sense, the outcome of the forthcoming climate COP, which deals with climate finance, should be fully reflected in this document. Moreover, it will be important to work with ‘developing’ countries to mobilize additional resources in a manner that aligns with common but differentiated responsibilities and respective capabilities. This is particularly true when considering their increasingly important role in not only the global economy, but also GHG emissions. Moreover, many of the world’s emerging development challenges are related to international or regional public goods such as public health and climate change, requiring universal support.
* Concerning outflows, the role of ODA needs to be used in two manners. First, it should be used to support the countries that are unable to mobilize private finance at scale. Indeed, it has been reported that over fifty percent of the public budget in certain fragile countries is comprised of ODA. Going further, it should be used to promote specific sectoral areas that are unable to generate sufficient market attention. For example, in the area of climate change, adaptation needs to be prioritized. Second, it should serve as a mobilizer of additional finance, especially when considering the limited nature of public finance. To this end, ODA should be used when it is clear that it can achieve a flypaper effect (i.e., mobilize complementary domestic finance from partner governments) or a crowd-in effect (i.e., mobilize private finance), specifically when these results would not have been achieved otherwise.
* Development finance, especially MDBs with its concessional finance, can play a pivotal role in catalyzing and leveraging investment in the SDGs. Several MDBs already came together to collaborate and better support their clients in accelerating the progress on SDGs. As guided by the SDG Stimulus, it is important to increase MDB’s impact on addressing urgent development challenges and upscale finance for the SDGs by informing their decisions with policy while supporting them to improve their lending terms taking vulnerability into account in their concessional frameworks, while encouraging countries to integrate their climate and nature actions given its interlinkage by integrating financing options. Providing capacity building for borrowing countries to develop bankable projects should also be accompanied.

**Infrastructure finance**

* Significant finance is required to support greenfield and brownfield infrastructure developments and there are several global initiatives that regularly update estimates of investment that is required in infrastructure to achieve SDGs. For example - Rozenberg and Fay (2019) in ‘Beyond the Gap’[[1]](#footnote-1) or Hallegatte et al (2019) in ‘Lifelines’[[2]](#footnote-2). World Bank[[3]](#footnote-3) and IMF[[4]](#footnote-4) have produced more recent estimates ranging from $1.5 – $4.2 trillion per year until 2030.[[5]](#footnote-5) Although infrastructure investors are continuing to integrate SDGs into investment processes – finance for development channeled to infrastructure must align SDG outcomes to financial considerations and setting consistent outcome objectives along the investment chain.[[6]](#footnote-6) Co-opting principles and frameworks of sustainable finance like those prescribed by the ICMA or the DFI Blended Concessional Finance Principles while setting higher standards for transparency and monitoring would be significant steps in the right direction.

**International trade as an engine for sustainable development**

* With the expansion of globalization, international trade is increasingly optimized within global value chains (GVCs). Between 1950s and 2019, the value of exported goods rose from USD 61.8 billion to USD19.8 trillion USD; and today the value of exported goods around the world is close to 25% of global GDP (Ortiz-Ospina & Beltekian, 2018). However, as international trade has grown so does the evidence associating trade with negative impacts on the environment, exacerbating the planetary crises on nature loss, climate change and pollution.
* In this interconnected economy, 80% to 90% of trade operations rely on the extension of a financial instrument, referred as Trade Finance instruments (WTO 2009) to manage a payment, secure this payment or offer financing. Therefore, there is a tremendous need and scope for increases on ‘green’ trade finance that, along with greater investment in green sectors, will support green exports and the participation of developing country businesses in sustainable supply chains (Birkbeck, 2021). Sustainable trade finance is thus a powerful tool to promote trade as a catalyst to advance toward a sustainable social and economic development, coupled with tackling the three planetary crises.
* Debt and Debt Sustainability: Debt sustainability remains a significant challenge for many LMICs, particularly as they navigate the twin pressures of economic recovery and climate adaptation. Lee Buchheit and Gregory Makoff’s recommendation for mandatory prepayment value recovery instruments (VRIs) offers a more effective approach to debt restructuring, ensuring that economic outperformance directly reduces restructured debt​[[7]](#footnote-7). However, it’s essential to recognize that the issue is not merely the debt load itself but the burden of debt servicing costs (DSC) relative to GDP. High DSC can crowd out critical investments, making it imperative to assess what constitutes a “healthy” DSC for each country. This could be managed through longer-term refinancing options, akin to Brady bonds, supported by guarantees from MDBs and advanced economies.

**Addressing systemic issues**

* The potential of SDRs to enhance the lending capacity of MDBs is significant; however, clear quantity guardrails and forward guidance on SDR issuance are essential to avoid perceptions of SDRs as an unlimited resource​. As Maurice Obstfeld and Edwin Truman emphasize, while SDRs can contribute to global finance, their impact will be constrained without broader structural reforms, including increased direct funding and improved global governance[[8]](#footnote-8).
* While SDRs present an opportunity, their role should be carefully managed with clear guidelines on issuance to prevent them from being seen as a limitless resource. The idolatry of “innovation” has sometimes led to experimental paths that may not be the most effective in challenging situations. Instead, the focus should be on proven, effective solutions that can be scaled and replicated across different contexts.
* On a global scale, inclusive wealth is the accounting value of an economy's stock of manufactured capital, human capital and natural capital.[[9]](#footnote-9) The Inclusive Wealth Index (IWI) is a way for countries to measure overall well-being - whether they are developing in a way that allows future generations to inherit as large a productive base to meet their own needs.[[10]](#footnote-10) 44 out of the 140 countries have suffered a decline in inclusive wealth per capita since 1992, although GDP per capita increased in almost all of them.[[11]](#footnote-11) This means that these countries are not on a path to sustainable development, even if their economies, according to GDP, appear to be growing. They are depleting their stocks of natural, human or physical capital at rates that will leave future generations worse off. Wealth is a stock, whereas income is a flow. It is critical to transition towards sustainable natural resource use and management to achieve the SDGs. Targeted and coordinated actions at scale are needed to decouple human well-being improvement from the environmental impacts derived from resource use.[[12]](#footnote-12) Progress towards ensuring sustainable consumption and production patterns (SDG 12) can be assessed using material flow analysis.

**3. Emerging Issues**

* The escalating risks posed by climate change and environmental degradation require a proactive and integrated response. As Avinash Persaud highlights, managing currency risk is vital for unlocking private capital for green projects in emerging markets[[13]](#footnote-13). The global crisis we face is too vast for any single actor to address effectively, necessitating a collaborative approach that leverages the strengths of all stakeholders​. A greater collaboration between MDBs and UN agencies therefore would be essential.
* Lastly, we underscore the importance of mainstreaming climate adaptation into fiscal planning and risk assessments. By integrating these considerations into DSAs and fiscal frameworks, countries can build resilience and better manage the long-term risks associated with climate change, thereby fostering sustainable economic growth​.

**4. Overarching Reflections**

* The success of FfD 4 will hinge on its ability to foster better coordination among international and regional financial institutions. Integrating climate risks into financial assessments and effectively managing currency risk are critical components of this strategy. The IMF’s role in recycling SDRs for hybrid capital should be managed with transparency and caution, ensuring clear quantity guardrails to maintain fiscal responsibility. As Obstfeld, Truman, and Persaud suggest, the focus must be on sustainable, effective solutions rather than on the allure of innovation for its own sake.
* It is crucial to integrate development and environmental considerations into national budgeting processes through tools like SBA. This ensures that expenditures are aligned with both immediate and long-term sustainability goals, fostering a holistic approach to development that addresses the complex interlinkages between economic growth, climate resilience, and environmental sustainability
* The global crisis requires collective action, and the combined efforts of MDBs, UN agencies, and national governments are essential to achieving the ambitious targets set out in the 2030 Agenda and beyond.

**Addendum**

**UNEP’s Economic and Finance Transformation Priorities: Mainstreaming Climate, Nature, and Pollution into the Global Financial System**

**I. Global Financing Framework**

UNEP is driving the transformation of global financial systems to manage the interconnected challenges of climate change, nature degradation, and pollution. This work ensures that financial decision-makers, including Ministries of Finance (MoFs), financial institutions, and investors, integrate sustainability into risk management, public finance, and investment strategies. UNEP emphasizes the need for systemic policy reforms in pollution finance, nature-based solutions, sustainable budgeting, and climate-resilient macroeconomic modeling. By integrating environmental sustainability into economic frameworks, UNEP helps governments align financial systems with global sustainability goals. UNEP also suggests that there should be a shift from funding to financing. For example, achieving the financial goals laid out in the Kunming-Montreal Global Biodiversity Framework - including mobilizing $200 billion annually through 2030 (Target 19) - requires new financing strategies coupled with approaches to measure and value nature-related economic changes. On the ground delivery requires a clear understanding of the distinction between funding and finance for nature, and the role, potential scale, risks and opportunities associated with each. for example, what might this mean for the US$8 trillion a year food system, or the US$100 trillion sovereign debt markets, or the US$4 trillion a year soft commodity markets. That must be evaluated.

**II. Action Areas**

**a. Pollution Finance and Systemic Risk Management**Pollution poses significant financial risks, from stranded assets to regulatory liabilities. UNEP advocates for including pollution risks in financial disclosure frameworks, building on the Financial Stability Board’s Task Force on Climate-Related Financial Disclosures (TCFD) and the Task Force on Nature-Related Financial Disclosures (TNFD). Enhanced disclosure on risks, opportunities, dependencies and impacts enables financial institutions to assess exposure to pollution-related liabilities, thus incentivizing capital reallocation to transition towards cleaner, more sustainable sectors.

**b. Nature-Based Solutions (NBS) and Inclusive Wealth (IW)**The depletion of natural capital poses severe risks to economic stability. UNEP’s Inclusive Wealth provides the measurement of productive base of the economy and how are they changing. Tracking down the movement of change in per capita inclusive wealth helps understand the sustainability and trade off in the economy across various types of capitals. Change in the inclusive wealth of the nations provides insights on the following:

**Subsidies impact the Use of Nature and Biodiversity:** Following the mandate from *KM Global Biodiversity Framework*, this will help aligning fiscal measures with Biodiversity. This will also help mainstreaming biodiversity in international and national statistical agencies.

**Climate Finance and New Wealth measures**: The IWI can bring the Loss and damage by Climate into Govt effort in allocating appropriate fund to combat wrath of climate change.

**Natural Capital Accounting** would improve the standing of resource rich (incl sequestration potential) countries in the international credit market,

**Natural Capital and Inequality**: How Natural capital in IWI can provide new insights and channel intervention / investment in prevailing economic inequality for a just world.

**Managing Global Public Goods Better:** With a broader assets and production boundary as envisioned in the IWI, the global public goods like Ocean and Atmosphere can be better accounted and monetized.

This perspective helps policymakers and financial institutions think productively about leveraging existing financing models—such as those used for traditional infrastructure services (e.g., water, energy)—to invest in Nature-Based Solutions. UNEP promotes NBS, such as reforestation and wetland restoration, as cost-effective means to mitigate climate and pollution risks while contributing to biodiversity conservation. Resource-rich countries can also use the IW framework to sustainably manage energy transition minerals, ensuring long-term economic resilience.

**c. Sustainable Budgeting Approach (SBA)**UNEP’s SBA enables Ministries of Finance to systematically align public budgets with climate, nature, and pollution goals. By integrating sustainability indicators across sectors, SBA supports governments in making data-driven fiscal decisions that contribute to long-term environmental resilience.

**d. Macroeconomic Modeling for Climate Adaptation and Resilience – Inclusive Green Economy Modelling Framework (I-GEM**)  
UNEP’s I-GEM framework integrates climate risks into national economic planning by simulating the macroeconomic impacts of climate adaptation and nature-based policies. This helps governments prioritize investments in resilience and demonstrates the economic benefits of adaptation, while ensuring financial flows support sustainable growth. An economy-wide modelling in dynamic setting would yield better and credible pricing for the Carbon which is compounded with haziness at the moment.

**III. Emerging Issues**

Addressing systemic environmental risks such as pollution, biodiversity loss, and climate change requires innovative financial strategies. UNEP’s tools like I-GEM and SBA help countries prepare for these risks while building resilience within their financial systems. As global environmental challenges grow, UNEP will continue to lead efforts to align finance with sustainability objectives, ensuring long-term economic stability in a rapidly changing world.

1. Rozenburg and Fay (2019). Beyond the Gap. World Bank Group. [↑](#footnote-ref-1)
2. Hallegatte et al (2019). Lifelines. World Bank Group. [↑](#footnote-ref-2)
3. Vorisek and Yu (2020). Understanding the cost of achieving sustainable development goals. World Bank Group. [↑](#footnote-ref-3)
4. https://www.elibrary.imf.org/display/book/9781513511818/9781513511818.xml [↑](#footnote-ref-4)
5. Estimates vary by scope and methodology of studies. [↑](#footnote-ref-5)
6. https://www.unpri.org/sustainable-development-goals/bridging-the-gap-how-infrastructure-investors-can-contribute-to-sdg-outcomes/6053.article [↑](#footnote-ref-6)
7. <https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4926056> [↑](#footnote-ref-7)
8. <https://www.piie.com/blogs/realtime-economics/imfs-special-drawing-rights-alone-are-no-silver-bullet-needed-climate> [↑](#footnote-ref-8)
9. https://www.unep.org/resources/inclusive-wealth-report-2018 [↑](#footnote-ref-9)
10. https://www.unep.org/resources/inclusive-wealth-report-2018 [↑](#footnote-ref-10)
11. https://www.unep.org/resources/inclusive-wealth-report-2018 [↑](#footnote-ref-11)
12. https://www.resourcepanel.org/sites/default/files/documents/document/media/gro24\_full\_report\_29feb\_final\_for\_web.pdf [↑](#footnote-ref-12)
13. <https://www.ft.com/content/eba81f44-6a8a-4a87-a993-1ed9f7fbb78f> [↑](#footnote-ref-13)