

BACKGROUND PAPER

Financing for development



United Nations
Office for South-South Cooperation



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Background

Since the Monterrey Consensus of the 2002 International Conference on Financing for Development, the global economic landscape has deteriorated significantly. Financing for development entered a new era in July 2015, when the global community agreed to the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, a framework and set of commitments for financing the Sustainable Development Goals (SDGs), which requires far more funding than aid can provide. The economic slowdown is compounded by increasing systemic risks, particularly from climate change and disasters, persistent inequalities, rapid technological transformation and growing global economic fragmentation. These challenges have placed unprecedented strain on both national financing frameworks and the international financial architecture, making the upcoming Fourth International Conference on Financing for Development, to be held in Spain from 30 June to 3 July 2025, a crucial opportunity to reform financing mechanisms at all levels.

The scale of investment needed to achieve SDGs and climate-action goals is unprecedented. Developing countries face disproportionate challenges due to higher capital costs and limited access to financing. Current financing frameworks, both public and private, remain misaligned with SDG objectives, often continuing to fund environmentally harmful activities.

The road to achieving the SDGs of the 2030 Agenda for Sustainable Development faces unprecedented challenges. Traditional funding sources are falling short as developed countries struggle to meet their international aid commitments amid multiple global crises. The economic impact of the coronavirus disease (COVID-19) pandemic, ongoing wars and conflicts, and the growing costs of supporting refugees have further strained available resources. In this context, South-South cooperation (SSC) has emerged as a vital alternative approach. Its emphasis on direct collaboration between developing countries, sharing of expertise and practical resource support offers a promising model for advancing sustainable development. This peer-based partnership framework may prove essential in helping countries to overcome current obstacles and work together towards shared development goals.

Challenges

The following are some key insights and statistics:

- ▶ According to the *Financing for Sustainable Development Report 2022*, a financing divide is sharply curtailing the ability of many developing countries to respond to shocks and invest in recovery.
- ▶ The poverty rate fell from 38 per cent in 1990 to 8.5 per cent in 2024; it has stalled more recently amid lower economic growth and multiple shocks such as the COVID-19 pandemic, high inflation, and increased conflict and fragility. Using the “poverty line of \$3.65 a day per person...about 1.7 billion people are living in poverty in 2024”.¹
- ▶ Around half of the measurable SDG targets are significantly off-track from their intended trajectory.²
- ▶ Global growth is projected at 3.3 percent both in 2025 and 2026, below the historical (2000–19) average of 3.7 percent.”³

¹ World Bank, Poverty, Prosperity, and Planet Report 2024: Pathways Out of the Polycrisis (Washington, D.C.: 2024), p. 2.

² The Sustainable Development Goals Report, 2025.

³ International Monetary Fund (IMF), World Economic Outlook Update: Global Growth – Divergent and Uncertain, January 2025, p. 1.

- ▶ The annual SDG financing gap in developing countries is estimated at \$4.2 trillion.⁴
- ▶ The increase in total greenhouse gas (GHG) emissions of 1.3 per cent from 2022 levels is above the average rate in the decade preceding the COVID-19 pandemic (2010–2019), when GHG emissions growth averaged 0.8 per cent per year⁵ This acceleration in emissions growth directly impacts development financing by increasing the urgency and scale of climate-related investments needed to achieve the SDGs. Rising emissions translate to higher climate adaptation and mitigation costs, which compete with other development priorities for limited financial resources. Additionally, increased climate risks make developing countries more vulnerable to economic shocks, potentially undermining debt sustainability and access to affordable financing.
- ▶ In 2023, total (ODA) [official development assistance] reached a record high of \$223.7 billion, amounting to a real-terms annual increase of 1.8 per cent (OECD, 2024a). Despite this being a fifth consecutive year for ODA to surpass its previous record levels, the share of ODA in GNI [gross national income] still lags significantly behind the committed 0.70 per cent by developed economies, as it only reached 0.37 per cent in 2023...As such, it remains at a level insufficient to support recipient countries in their efforts to recover from the long-term challenges planted by the pandemic and other compounding crises.”⁶
- ▶ Developing countries paid a record \$443.5 billion in public debt in 2022.⁷ A significant portion of countries of the Global South are facing a "debt sustainability crisis" where a large number, exceeding 60 per cent, of low-income countries are either already in debt distress or at a high risk of entering it, which severely restricts their capacity to access new funding and invest in crucial development initiatives
- ▶ Limited domestic resource mobilization can make it difficult for Governments to generate revenue for development financing. This can happen when Governments have weak tax systems and large informal economies. The average tax-to-GDP ratio in least developed countries (LDCs) was just 13 per cent in 2021, compared to the global average of 15 per cent and 34 per cent in member countries of the Organization for Economic Co-operation and Development (OECD). Moreover, in many LDCs, over 60 to 80 per cent of the labour force operates in the informal sector, where income often goes untaxed. Informal businesses typically lack proper accounting systems and are not registered with tax authorities, making it challenging to assess and collect taxes.

Addressing the development financing gap in the Global South requires a comprehensive approach combining domestic resource mobilization, international cooperation and innovative financing mechanisms. Success depends on sustained political commitment, institutional capacity-building and coordinated action at the national, regional and global levels.

Recommendations

1. Enhancing domestic resource mobilization stands as a cornerstone of sustainable development financing. This begins with the modernization of tax administration through comprehensive digital transformation, making tax collection more efficient and reducing leakage. Progressive taxation policies ensure that the tax burden is distributed fairly while maximizing revenue potential. Financial transparency initiatives work to stem the flow of illicit funds that drain resources from developing economies. Additionally, robust local capital markets create domestic funding sources and reduce dependency on external financing.
2. The international financial architecture requires fundamental reform to better serve global development needs. A key priority is establishing an effective sovereign debt workout mechanism to address debt distress in a systematic way. Multilateral development banks need structural reforms to expand their lending capacity and meet growing financing demands. The creation and strategic allocation of special drawing rights, with mechanisms favoring developing countries, can provide crucial liquidity support.

⁴ United Nations Conference on Trade and Development (UNCTAD), Trade and Development Report 2024: Rethinking Development in the Age of Discontent (United Nations publication, 2024).

⁵ United Nations Environment Programme (UNEP), Emissions Gap Report 2024

⁶ UNCTAD, "Cooperation and solidarity for progress towards the 2030 Agenda", SDG Pulse, citing OECD (2024a). ODA Levels in 2023: Preliminary Data. Available at <https://sdgpulse.unctad.org/development-financing>.

⁷ World Bank, International Debt Report 2023 (Washington, D.C., 2023), p. ix.

3. Implementation of global minimum corporate tax agreements ensures that multinational corporations contribute their fair share to development financing⁸.
4. Innovation in financing mechanisms opens new channels for development funding. Blended finance initiatives can catalyse private-sector investment by strategically using public resources to improve risk-return profiles. Carbon pricing, Green bonds and other sustainability-linked bonds channel capital towards environmentally sustainable projects while meeting investor demands for responsible investments. Guarantee mechanisms help de-risk private investments in developing markets, while debt-for-climate swaps offer innovative solutions for combining debt relief with environmental protection⁹.
5. South-South cooperation represents a vital complement to traditional development financing. Regional development banks provide context-specific solutions and a deeper understanding of local development challenges. Pooled funding mechanisms enable developing countries to combine resources for greater impact. The sharing of technical expertise and best practices among developing countries builds capacity efficiently, while development of regional capital markets creates new financing opportunities within the Global South.
6. Aid effectiveness remains crucial for maximizing the impact of development assistance. This requires careful alignment of aid with national development priorities and strategies of recipient countries. Reducing aid fragmentation through better coordination among donors prevents duplication and reduces administrative burdens. Greater use of country systems strengthens national institutions and ensures sustainable outcomes. Throughout all these efforts, enhanced transparency and accountability measures ensure that resources are used effectively and achieve intended development impacts.

Good practices relating to financing for development

This section highlights five innovative good practices that showcase how countries and institutions are leveraging financing mechanisms to accelerate sustainable development. These initiatives demonstrate how creative financial instruments and partnerships can unlock resources and promote inclusive growth, underscoring the importance of aligning financing strategies with the SDGs and national priorities to ensure that development financing is both effective and equitable.

Blue Peace Financing Initiative. The Blue Peace Financing Initiative is an innovative collaboration between the United Nations Capital Development Fund (UNCDF), the Swiss Agency for Development and Cooperation, and the Gambia River Basin Development Organization (OMVG) (which comprises the Gambia, Guinea, Guinea-Bissau and Senegal) that uses water as a catalyst for cross-border cooperation and sustainable development. The initiative addresses a critical gap by enabling non-sovereign entities such as river basin organizations to access capital markets through the creation of Blue Peace Bonds, which can fund joint investment plans and infrastructure projects. Using OMVG as a pilot case, the programme provides technical assistance and capacity-building to help these organizations to develop master plans and gain the ability to issue financial instruments. This model not only promotes peaceful water resource management and economic development among member States but also serves as a replicable framework for the world's nearly 300 transboundary aquifers and 263 transboundary river and lake basins, particularly benefiting countries of the Global South through South-South and triangular cooperation. Available at <https://southsouth-galaxy.org/solutions/detail/blue-peace>.

Smart Cities: From City Performance Evaluation to Innovative Financing. The Sustainable Smart Cities project, led by the Economic Commission for Europe (ECE) and the United Nations Human Settlements Programme (UN-Habitat), addresses municipal financing challenges by offering a comprehensive framework to help cities in Belarus, Georgia, Kazakhstan, Kyrgyzstan and Montenegro to access innovative financing for smart and sustainable urban development. At its core, the initiative employs 91 key performance indicators through a unique four-step methodology that not only evaluates city performance but, crucially, links it to investment opportunities: cities undergo evaluation, develop action plans, prepare

⁸ [Financing for Development Report 2024](#).

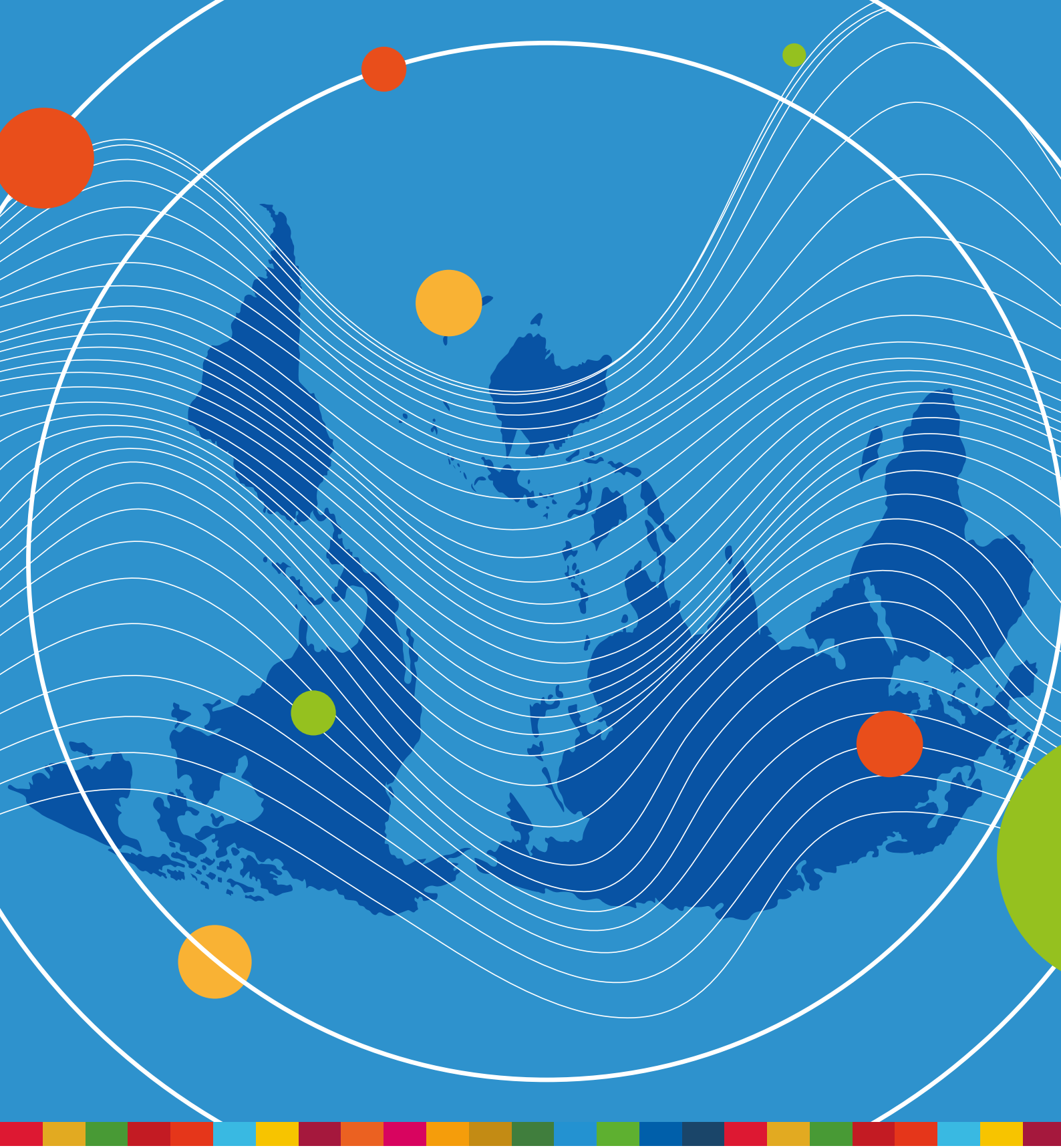
⁹ [Development at Risk: Protecting Gains and Unleashing Opportunities Amid Crisis](#).

bankable project proposals and connect with potential investors through dedicated seminars. The innovative financing approach of the project involves establishing local working groups for data collection, engaging multiple stakeholders including residents, and specifically helping cities to overcome budget constraints through public-private partnerships and connections to international financial institutions and venture capital firms. This standardized approach has already proven successful in cities such as Goris, Armenia, and Voznesensk, Ukraine, where it has led to concrete improvements in areas such as public health, urban transport and energy efficiency while also creating opportunities for SSC and knowledge-sharing across the ECE region. Available at <https://southsouth-galaxy.org/solutions/detail/smart-cities-from-city-performance-evaluation-to-innovative-financing>.

Climate Disaster Risk Financing Framework and Parametric Insurance. This innovative project in Fiji demonstrates an effective approach to climate disaster risk financing through the introduction of parametric micro-insurance products, targeting vulnerable populations including women, farmers, fishers and micro, small and medium-sized enterprises. The project, launched by the United Nations Capital Development Fund (UNCDF) and the Government of Fiji in 2020, successfully combined market-based solutions with Government support, evidenced by the value-added tax exemption on premiums, making insurance more accessible to low-income households. The initiative leveraged digital solutions such as mobile money wallets and the iOnboard platform for client management while fostering SSC through partnerships with Indian insurance expertise, particularly in parametric insurance solutions. The success of the project is demonstrated by its rapid uptake, with over 1,300 households (32 per cent women) enrolling within six months, and its planned expansion to Tonga and Vanuatu. What makes this practice particularly noteworthy is its comprehensive approach combining Government backing, private-sector involvement, digital innovation and international cooperation to create a sustainable financial solution for climate resilience in vulnerable small island developing States. Available at <https://southsouth-galaxy.org/solutions/detail/developing-climate-disaster-risk-financing-framework-and-parametric-insurance>.

Incentive Mechanism for Agricultural Financing Based on Risk Sharing (MIFA). This innovative agricultural financing initiative in Togo demonstrates an effective approach to addressing the chronic under-financing of the agricultural sector by creating a risk-sharing framework between multiple stakeholders. Launched in 2018, the initiative combines State guarantees, insurance products, technical assistance and interest-rate subsidies to make agricultural lending more attractive to financial institutions. The success of the programme is evidenced by its allocation of 27 billion CFA francs (approximately \$47 million) in credits, supporting over 200,000 producers and structuring 1,450 cooperatives. What makes this practice particularly noteworthy is its holistic approach that goes beyond mere financing: it includes capacity-building for farmers, collection of real-time information using advanced technology and guaranteed product purchases through aggregators. The sustainability of the initiative is enhanced by its successful privatization and multi-stakeholder involvement, including private banks, the Government of Togo and local small and medium-sized enterprises while benefiting from SSC through Nigerian expertise in agricultural risk-sharing mechanisms. Available at <https://southsouth-galaxy.org/solutions/detail/mifa>.

Transformative Financing for Gender Equality and Women's Empowerment. This good practice showcases the successful approach of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) to gender-responsive budgeting through comprehensive capacity strengthening and international collaboration, particularly highlighted by its partnership with the IMF since 2017. Its effectiveness stems from its focus on key success drivers including strong legal requirements, leadership by finance ministries, multi-stakeholder participation, and alignment between national development plans and budgets. The financial impact is demonstrated through successful implementation in countries such as Rwanda, where parliamentary oversight led to increased investment in women's education and health services. The strength of the practice lies in its multifaceted approach combining peer-learning events, regional training programmes delivered in multiple languages, and the creation of robust frameworks for gender analysis in Government planning and budgeting. The success of the initiative in engaging over 100 countries and facilitating knowledge transfer through South-South cooperation as evidenced by countries, such as the adoption by Malawi of the public finance management reforms of Uganda, demonstrates its effectiveness in institutionalizing gender considerations in public financial management. Available at <https://southsouth-galaxy.org/solutions/detail/transformative-financing-for-gender-equality-and-womens-empowerment>.



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