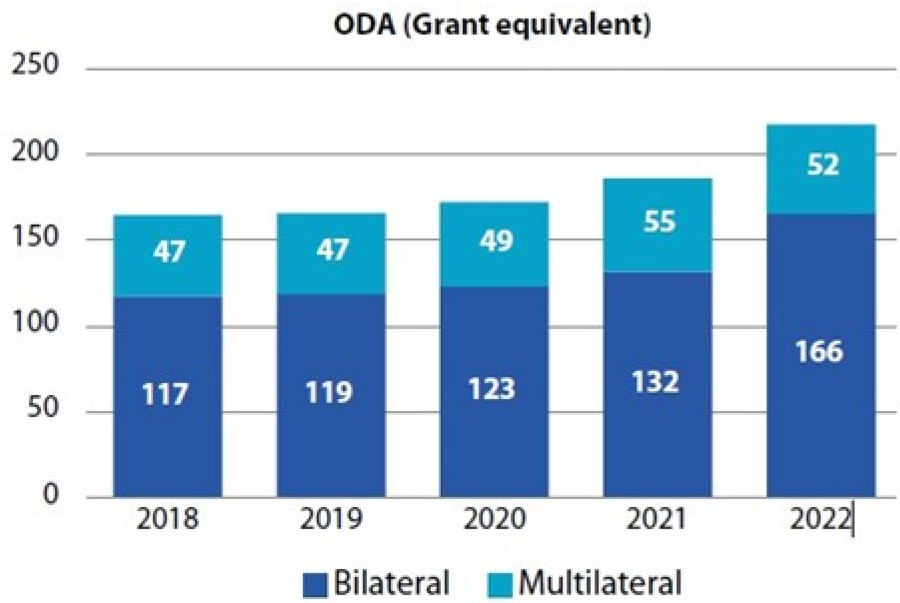
Urgent Need for Enhanced International Development Cooperation Amid Global Crises: 2024 Financing for Sustainable Development Report

The 2024 Financing for Sustainable Development Report underscores the pressing need for enhanced international cooperation amidst rising global crises. It stresses the importance of fulfilling commitments on Official Development Assistance (ODA) and climate finance to address challenges posed by climate change, COVID-19, and economic instability. Advocating for vulnerability criteria in concessional financing, particularly for Small Island Developing States (SIDS) and other vulnerable nations, the report highlights the pivotal role of Multilateral Development Banks (MDBs) and blended finance in mobilizing private investment. It also emphasizes increased funding for climate change and biodiversity conservation, alongside investments in data systems and a shift beyond GDP as a progress measure, urging coordinated global efforts for better risk mitigation and policymaking.

Official Development Assistance fall short of global needs and commitments

The report highlights that despite reaching record highs, ODA hasn’t kept pace with growing global needs. In 2022, ODA from Development Assistance Committee (DAC) members of the Organisation for Economic Co-operation and Development (OECD) increased by 17% to $211 billion (Figure 1), primarily due to higher spending on refugees and aid to Ukraine. Excluding refugee costs, ODA grew by 7.3%. However, many countries still fell short of their aid commitments, with only a few meeting the 0.7% national income target.

Figure 1: Official Development Assistance, 2018–2022



Higher spending on refugees and humanitarian aid, which rose from 9% of total ODA in 2000 to 25% in 2022, is diverting funds from long-term goals like the Sustainable Development Goals (SDGs). In 2022, aid to least developed countries (LDCs) and sub-Saharan Africa dropped by 5.2% and 8.6%, respectively. Increasing ODA is essential to tackle sustainable development challenges.

Since the pandemic, there’s been a decrease in ODA commitments for gender equality. From 2011, DAC countries’ ODA for gender equality had been rising steadily, reaching an average of $60 billion yearly or 45% of total aid in 2019/20. However, though the overall amount continues to increase, the share dropped to 43% in 2021/22. Gender equality integration remains weak, especially in humanitarian and energy sectors, despite its benefits. With increasing competing needs, there’s a risk of finance being diverted. Donor countries need to prioritize gender-focused ODA and improve gender policy safeguards. Strong leadership and well-designed programs are crucial for advancing ODA for gender equality.

In 2022, a significant update was made to the SDG indicator framework by introducing a new indicator, 17.3.1, which focuses on mobilizing additional financial resources for developing countries from various sources. This indicator aims to ensure that the financial flows are in line with the SDGs and includes specific criteria to measure their sustainability. It consists of six sub-indicators covering different types of financial support, including sustainable development grants and loans, foreign direct investment, mobilized private finance, and private grants. The United Nations Conference on Trade and Development (UNCTAD) and the OEC are jointly responsible for overseeing global reporting for this indicator to ensure consistency and prevent duplications in data collection.

Enhancing concessional financing allocation through vulnerability criteria

The report highlights the need to adapt concessional financing by integrating vulnerability criteria due to increasing systemic risks and the frequency and severity of natural disasters. SIDS struggle to mobilize domestic resources and heavily rely on ODA, while high-income SIDS face significant external debt burdens.

The emergence of the Multidimensional Vulnerability Index (MVI) offers a promising approach to improving financing needs assessment. By providing a comprehensive way to characterize and measure vulnerabilities, the MVI complements income-based criteria, highlighting the nuanced structural challenges vulnerable nations face and emphasizing the importance of building structural resilience for sustainable development.

However, integrating vulnerability criteria into allocation decisions requires careful analysis to consider potential impacts on all eligible countries and ensure alignment with existing allocation frameworks' eligibility criteria. Balancing the need to address vulnerability with equitable distribution and the effectiveness of concessional financing remains crucial.

Multilateral Development Banks: Pillars of global development

MDBs are crucial providers of affordable, long-term finance to developing nations, especially during crises. MDBs have broadened their focus from infrastructure to include poverty reduction, health, and education. However, the report notes a decline in concessional funding, posing challenges for low-income countries. "While concessional finance as a share of total MDB lending to developing countries rose in the early 2000s, it has since declined," the report observes.

MDBs are implementing reforms to enhance their financial capacity, including better managing their funds, offering new types of guarantees, and creating new financial products. The report emphasizes the importance of closer cooperation among MDBs and public development banks (PDBs), which are government-owned institutions that help economic development, operate independently, and do not offer regular banking services like personal accounts or consumer loans. This cooperation aims to strengthen the development bank system and increase its impact. However, the report does not delve into the structural issues within MDBs that hinder their efficiency and effectiveness. Without addressing these foundational problems, the proposed reforms may not yield the desired outcomes.

Mobilizing private investment for sustainable development

The report underscores that blended finance, which leverages public development finance to attract private investment, is pivotal for sustainable development. However, the growth of blended finance has been hindered by global economic challenges. Most blended finance is directed towards middle-income countries, leaving LDCs with limited access. This imbalance underscores the need to shift focus from merely seeking financially viable projects to prioritizing impactful initiatives in LDCs.

To address these challenges, the report underscores the importance of adhering to guiding principles outlined in the Addis Ababa Action Agenda. These principles stress aligning blended finance activities with national development priorities, prioritizing development impact over financial leverage, and ensuring cost-effectiveness compared to other financing mechanisms. Additionally, various organizations have developed their own principles for blended finance, aimed at maximizing its impact on sustainable development goals.

Bridging the financing gap for climate change and biodiversity conservation

The report stresses the urgent need for increased financial resources to address climate change and biodiversity challenges, particularly in vulnerable countries. Current climate finance and biodiversity funding fall short, with private investments in adaptation remaining inadequate. The disproportionate allocation of climate finance to the most vulnerable countries underscores the need for greater international cooperation.

MDBs play a critical role in funding climate action but must ensure that mitigation funding is additional and directed towards countries most in need. The report highlights the complexity and fragmentation of the global climate finance architecture, which poses challenges for coordination and access to finance, particularly for developing countries. Reforming and streamlining this architecture is crucial for effective climate finance mobilization.

In addition to climate action, the report emphasizes the urgent need for increased financial resources to halt and reverse biodiversity decline. Biodiversity loss poses systemic risks to human well-being and sustainable development, yet current financing levels are insufficient. Despite some progress, the broader biodiversity financing gap persists, necessitating more efforts to mobilize resources for biodiversity conservation and restoration.

To support biodiversity conservation goals, initiatives like the Global Biodiversity Framework Fund have been launched with contributions from developed countries. However, more funding is needed for nature-based solutions, which face barriers such as lack of competitive financial returns and consistent tracking methodologies.

The report notes that global climate finance discussions reached a pivotal moment in late 2023 with the establishment of the Loss and Damage Fund, a significant breakthrough in addressing climate change effects. Initially proposed in the Bali Action Plan in 2007 and gaining momentum from 2013 onwards, the fund was created at the 27th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP27) in 2022 to aid vulnerable countries in coping with climate disasters.

The establishment of the Loss and Damage Fund highlights the recognition that developed nations, largely responsible for historical emissions, have a moral obligation to assist developing countries. At COP28, governments committed approximately $700 million to the fund, initially hosted by the World Bank. However, with projected annual climate-related losses of around $400 billion for developing nations by 2030, further financial commitments and mobilizing private investment are imperative.

To ensure the effectiveness of the Loss and Damage Fund, coordination with existing climate adaptation and mitigation initiatives is crucial. Aligning efforts and filling gaps in the current architecture will maximize the fund’s impact and support vulnerable communities in adapting to and mitigating climate change effects. While the report acknowledges the insufficiency of current climate finance, it does not provide a detailed roadmap for adequately financing and managing the Loss and Damage Fund.

Investments in data systems

The report emphasizes that investments in data systems are fundamental to sustainable development, stating, “Investments in data pay a dividend. Underinvestment in public data systems and statistical activities continues to undermine the pursuit of sustainable development.” This statement emphasizes the economic returns that can be achieved through proper investment in data, which is crucial for informed policymaking and progress tracking.

Data innovation and access

Innovative data sources, such as digital and administrative data, are increasingly being recognized for their potential to complement traditional data sources. However, the report notes that “access to data remains a challenge”??. The inclusion of new data sources can provide real-time information and enhance the depth and representation of official statistics, which is vital for timely and effective decision-making in various sectors, including humanitarian work and human rights.

Moving Beyond GDP

The report calls for moving beyond traditional economic indicators like GDP, arguing, “The excessive focus on income per capita and gross domestic product (GDP) levels obscures progress on all three dimensions of sustainable development.” There is a growing consensus that GDP alone does not capture the full spectrum of sustainable development, which includes social well-being and environmental health (See information on Bhutan below). This perspective aligns with the growing international efforts to develop and adopt a more comprehensive set of indicators that better reflect sustainable progress.

Bhutan is known for looking beyond just economic growth and using measures like Gross National Happiness (GNH) instead of just GDP. Since 1979, they've been using GNH, which considers various aspects of well-being beyond just money. The GNH index, developed over three years with input from many groups, has nine domains and 33 indicators (Figure 2) reflecting Bhutanese values. It guides national policies, with GNH indicators used in planning. New policies are checked using a GNH Policy Screening Tool to see how they affect well-being. Bhutan focuses on renewable energy and protecting biodiversity because of its commitment to GNH. Their tourism strategy prioritizes preserving culture and the environment. Since 2015, Bhutan has also included SDGs in its GNH index and policies, aligning its efforts with global sustainability goals.

Figure 2: The nine domains of the Bhutan Gross National Happiness (GHN) index

Financing for development

The report also highlights the fragmented nature of current financial data systems, which hampers effective risk mitigation and policymaking. It points out, “Financial data is essential in risk mitigation and policymaking but lacks a single overarching framework that unites different parts of the international system”??. This lack of coordination underscores the need for a unified approach to financial data that can better support sustainable development goals.

Enhancing data and statistical systems for Sustainable Development Goals

To make significant progress on the SDGs, the report highlights that it is crucial to invest in data and statistical systems that produce actionable insights. These insights can drive informed decision-making, optimize resource allocation, and measure the impact of interventions, ultimately advancing global development.

According to the report, a coordinated global financing architecture is emerging to unlock the potential of data for development and risk analysis on a large scale. This architecture involves pooling resources and setting priorities among Member States, fostering collaboration and efficiency. By working together, countries can leverage their collective expertise and funding to create robust data systems that serve the common good.

The Fourth International Conference on Financing for Development, scheduled from June 30 to July 3, 2025, in Spain, presents an opportunity for Member States to agree on these priorities and resource-pooling strategies. The conference will be held at the highest possible political level, including Heads of State and Government, relevant ministers (finance, foreign affairs, and development cooperation), and other special representatives. By focusing on coordinated financing structures, the conference aims to streamline efforts and ensure that investments in data systems are both effective and sustainable.

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