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Financing for Sustainability Transformations in Disruptive Times

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Summary

Progress on the Sustainable Development Goals (SDGs) is increasingly hampered by insufficient funding. This Policy Brief, drawing on insights from a roundtable held in the context of the Hamburg Sustainability Conference (HSC) with experts from the Americas, Africa, Europe, and Asia, examines how sustainable development financing can be safeguarded in an era of economic disruptions, global conflicts, and political shifts. It situates these recommendations within the context of the outcomes of the fourth Financing for Development (FfD4) Conference, with a view to informing the follow-up process.

An estimated USD 4.2 trillion are needed for the implementation of SDG policies. Notwithstanding this, economic insecurity, slow growth, and waning political commitment reduce private and public investments in sustainability. Rising conflicts lead to a redistribution of budgets towards military expenditures and away from environmental and social objectives. This includes reductions in Official Development Aid, further limiting funding for sustainability transformations in low- and middle-income countries.

In order to sustain and increase financing for SDG implementation, taking the challenging framework conditions into account, a series of actions is needed:

– Alignment of public spending with the SDGs and planetary boundaries by phasing out harmful subsidies and integrating sustainability into credit ratings and investment strategies.

– Strengthening domestic revenue mobilisation through improved and efficient tax systems, tax transparency, and reduction of harmful tax expenditures.

– Building institutional capacity in transitioning sectors, including sustainable finance, digitalised tax systems, and data provision for and engagement with credit-rating agencies.

– Translating FfD4 outcomes into concrete actions in platforms like the G20, the International Monetary Fund (IMF)/World Bank meetings, and the HSC, aligning them with social and environmental priorities. But also filling the gaps on issues neglected in FfD4 by supporting future multilateral agreements and voluntary initiatives on tax, SDRs, cost of capital, and debt restructuring.

Disruptions to sustainable development financing

The SDGs, laid down in the 2030 Agenda for Sustainable Development, remain the central global framework to drive transformative progress in sustainability efforts, and are a foundation for international collaboration. Nevertheless, the world is falling short in delivering on this agenda: at present, fewer than 20 per cent of the targets are on track to being achieved (Sachs, Lafortune, & Fuller, 2024).

To accelerate progress towards the SDGs, the United Nations (UN) 2024 Summit of the Future emphasised the need to supply sustainable, reliable, transparent, and accessible development finance; while also encouraging private investment into sustainable development through innovative finance, supportive regulations, and public funding to catalyse private action.

A 2024 UN report estimates that an additional USD 4.2 trillion are needed to finance the necessary policies to reach the SDGs – only roughly 1 per cent of global finance (OECD [Organisation for Economic Co-operation and Development], 2025a). Despite this, financing for sustainable development has been inadequate for several reasons: while sustainable investment has risen since 2015, the majority of private investments remain unaligned with sustainable development objectives – for example, they support carbon-intensive industries and exclude the least developed countries. Moreover, the indebtedness of low- and middle-income countries and illicit financial flows, such as tax evasion, reduce the scope of national budgets for sustainable development. Further, representation of countries from the Global South in international financial and economic institutions remains disproportionately low.

In addition to these long-standing financing barriers and trends, recent disruptive and polarising international policies and political shifts further reduce financing for sustainable development by increasing investment risk, binding resources, reducing commitment to sustainable development objectives, and complicating agreement on joint financial commitments and regulations. At the same time, they raise the urgency and costs of sustainability transformation.

Polarisation and disruption are increasingly visible in the doubling of violent conflicts worldwide over the past five years (Raleigh & Katayoun, 2024). These conflicts stall or reverse development progress in affected countries, divert international attention and funding towards security and defence, and undermine collective action to agree on global development financing strategies. Only four of the 33 DAC (Development Assistance Committee) donor countries devoted the targeted 0.7 per cent of gross national income (GNI) to official development assistance (ODA) in 2024 while net aid levels continue to fall, rather than rise (IEP [Institute for Economics & Peace], 2025). Major DAC donors – such as the United States, the United Kingdom, Germany, France, Japan and Canada, but also non-DAC donors such as Saudi Arabia, and thereby also the multilateral health and humanitarian organisations financed by them – have decreased development aid and/or announced further cuts. The OECD (2025b) projects ODA to fall to between 0.3 per cent and 0.27 per cent of GNI in 2025, with Least Developed Countries and Sub-Saharan African countries being hit hardest, facing cuts of up to 25 per cent of their ODA.

Domestic political shifts reinforce this trend, as policies are increasingly shaped by national self-interest. For example, the United States – so far the world's largest donor – rejected the 2030 Agenda for Sustainable Development and has withdrawn from key fora important for development financing, including the FfD4 Summit and the United Nations Framework Convention on Tax. It has also suspended major portions of its humanitarian and development aid, announcing that it will align future support more closely with conservative values and national objectives. This realignment is reflected in reduced financing for climate, and the strengthening of civil society, and gender rights. Other governments are following suit, cutting or reallocating ODA flows reflecting their own conservative agenda (for instance, Sweden, Netherlands (Smole, 2025)).

The confrontational United States tariff and trade policy has increased volatility on financial markets, thus reducing the opportunities for private investment. It has also negatively impacted the economies of many recipient and donor countries, further restricting fiscal space.

Accordingly, these strategies of disruption and polarisation have had substantial impacts on sustainable development in areas such as health and climate (Lazel & Petrovika, 2025) but also education, economic development, governance, democracy and agriculture in low- and middle-income countries. Moreover, announced further aid cuts risk to endanger stability, intensify migration pressures, and reverse economic progress (IEP, 2025).

The current situation and outlook give rise to the following questions: Through which international and domestic instruments can sustainable development financing be expanded and used most effectively under these difficult circumstances? Which policies and instruments are contested; and on which might compromises and near-term progress be realistically achievable?

This Policy Brief evaluates these questions on the basis of the outcomes of a virtual roundtable discussion that brought together leading experts from the Americas, Europe, Africa and Asia. The roundtable in May 2025 was hosted by the German Institute of Development and Sustainability (IDOS), and the Asian Development Bank Institute (ADBI) and was organised in cooperation with the Hamburg Sustainability Conference (HSC). The participants from think tanks, international organisations, rating agencies, governments and development and central banks explored how financing for development can be increased, despite recent global disruptions. Based on their discussion of disputed measures to increase financing, opportunities for support, and possibilities for new alliances, this Policy Brief identifies areas where policy action is (still) possible and indeed needed to foster sustainable development, and places them within the broader context and scientific debate. We also evaluate whether and how rigorously these recommendations are reflected in the FfD4 outcome document and where they are not – indicating further need for action in the FfD4 follow-up process and in future agreements.

Key financing sources: multilateral instruments

Multilateral instruments administered by coalitions of states or multilateral organisations such as the IMF or the World Bank play a crucial role in advancing global sustainable development by facilitating more equitable financial flows, regulatory coherence, and coordinated incentives. At their core, these instruments enable the redistribution of resources from wealthier nations to those most in need of financial support, helping to close persistent funding gaps and address structural inequalities. Multilateral instruments also promote the harmonisation of regulations, creating a level playing field for all stakeholders and reducing complexity, thus incentivising investments, cooperation, and access to development funding. International agreements, frameworks, and conditional funding can also incentivise national actors to align domestic policies with global sustainable development objectives.

Key controversial policies and instruments

A wide range of different measures and instruments were discussed at the roundtable that have the potential to generate and redirect finance towards the SDGs. When assessing their potential for controversy, the distinction between legally binding and non-binding instruments was considered helpful. Most contested were legal instruments. These include a global tax reform that reallocates taxing rights from high- to low-income countries – including equitable taxation of multinational businesses; taxes high networth individuals; reduces illicit financial flows, as proposed in the UN Framework Convention on International

Tax Cooperation; and potentially also introduces a global environmental tax and taxes high-windfall corporate profits. They further encompass legal instruments aimed at reducing foreign debt (for example, increasing concessional financing; debt swaps), and establish common sustainable financing standards. Legal instruments are binding and thus tend to be more effective. In addition, they can provide enforcement mechanisms, for instance, through a potential global debt authority responsible for debt restructuring in low- and middle-income countries, laid down in a convention on foreign debt.

Non-legal instruments, such as universal lending and borrowing principles, are less effective but could be a feasible short- to medium-term solution if accompanied by roadmaps to and incentives for implementation – for instance the adoption of these principles by international financial institutions such as a performance criterion at the IMF or publishing a list of countries indicating those that have adhered to the principles. Similarly, UNCTAD (United Nations Conference on Trade and Development) has proposed a roadmap for a non-binding debt authority with voluntary country membership that gradually expands its capacity to offer advice in debt restructuring.

Other disputed instruments relate, among others, to increasing ODA and reforming the way it is measured to exclude climate financing and domestic refugee costs (Koch & Aleksandrova, 2023), as well as the re-channelling of Special Drawing Rights (SDRs) from high- to low-income countries via multilateral development banks – an institutionalised, but so far unused, mechanism (Zattler, 2024, Berensmann et al., 2024).

Measures with relatively broad consensus for immediate impact

Notwithstanding the controversy around many policies, there seems to be scope for agreement on, and implementation of, several actions:

Improving the effectiveness of multilateral development banks (MDBs) and the International Monetary Fund (IMF)

Reforms that improve the effectiveness of MDBs and the IMF maximise the impact of existing financing mechanisms firstly, via targeted allocation across countries, for instance, prioritising the provision of concessional loans to low-income countries and restricting grants to low-income countries that do not have access to concessional loans. Second, this can also be done by increasing disbursement rates through simplified access by (i) pooling funds on similar topics such as climate – also across MDBs – thus reducing their overall number and complexity, and (ii) increasing the transparency of credit rating methodologies. Third, risks can be shifted away from vulnerable countries by prolonging loan duration in times of crisis, and by reallocating exchange rate risks from concessional loan recipient countries to MDBs by financing in national currencies. Fourth, callable capital – additional funds that can be provided by shareholders during exceptional crises – could be increased, as suggested in the G20 Capital Adequacy Framework (CAF) Review (Walle, 2025).

However, while assessed by the roundtable participants as issues on which there is relative agreement that reform is necessary, the implementation of such reforms is expected to be difficult without the support of the United States.

Coalition of the willing for the provision of SDRs

Although re-channelling SDRs from high- to low-income countries via MDBs comes at no cost to high-income countries, some countries oppose it, pointing to national or regional legal constraints. Nevertheless, there is informal support from some countries for the provision of SDRs. Thus, a possible breakthrough would be the commitment of potential donor countries with fewer legal constraints to channel SDRs through MDBs. Another suggested possibility to increase MDB financing power was the general provision of hybrid capital, not only using SDRs, and including by private entities.

Alignment of investment frameworks

Transaction costs for foreign investment flows can be reduced by aligning national and international investment frameworks and designing roadmaps and diagnostic tools for their implementation. A broad range of low- and middle-income countries have adopted an Investment Facilitation for Development (IFD) Agreement which is awaiting integration into the legal system of the World Trade Organization. Despite this, IFD signatories have started to prepare the implementation of the agreement with a view to promoting foreign investment flows. International donors should continue and increase their support for the implementation of the IFD agreement.

Budget constraints and reducing the cost of capital

The growing indebtedness of many low- and middle-income countries highlights that attracting capital is not sufficient if it is acquired at unfavourable terms that lead to debt traps. Thus, a key innovation is to focus on reducing the cost of capital, in particular through more equitable risk mitigation and sharing between lenders and borrowers. Proposed reforms include reforming the international credit regulation in Basel III – including the return of risk premiums after successful repayment, or at least their adjustment over time based on individual borrower's default rate which would benefit reliable high-risk borrowers such as low-income countries and increase the stability of financial markets for all (Bohoslavsky et al., 2024) improving transparency and adjusting risk ratings and premiums based on real, data-driven risk. Finally, considering social spending as a budget balance constraint in debt sustainability analysis would allow countries to maintain social spending during debt crises (Herman, 2024).

Key financing sources: domestic instruments

Domestic instruments play a critical role in financing sustainable development. Given the pre-existing funding gap and currently declining aid flows, all possible funding sources should be leveraged. Moreover, in light of the current volatility and unpredictability of foreign aid, strengthening domestic financing mechanisms is also key to ensuring the stable financing of domestic development policies. Furthermore, building national capacities for revenue generation and financial governance strengthens institutional resilience and financing in the long term. Importantly, in addition to raising funds, domestic instruments can steer sustainability outcomes directly. For example, reforming subsidies or tax exemptions not only frees up resources but can also support environmental and social goals by correcting harmful incentives.

Alignment and reduction of harmful tax expenditure and subsidies

In addition to the abovementioned global tax reforms, national tax systems are also in need of reform. Tax expenditures – tax provisions that deviate from the normal tax structure to favour a particular industry or group – cost states between 4.2 per cent of GDP (gross domestic product) and 25.7 per cent of tax revenue (von Haldenwang, 2025). Reducing tax expenditures for high-net-worth individuals and non-sustainable industries could free up revenue that can be used to finance new sustainable policies, while at the same time directly supporting progress towards the SDGs through reduction of inequality and of harmful industry activities. The international community (such as the IMF) can set incentives by asking countries to report on existing tax expenditures, thus increasing accountability. Other, yet untested suggestions made were bonds by MDBs linked to performance in domestic revenue mobilisation.

Developing national bond markets

Local currency bond markets are underdeveloped in low- and middle-income countries compared to high-income countries. They offer a huge potential, as they lead to greater financial stability in the face of foreign exchange rate shocks. Moreover, establishing a well-working sovereign bond market may pave the way for a successful private bond market (Hashimoto et al., 2021).

Fostering private investment

Two instruments discussed to foster sustainable investments in contexts of low public funding opportunities were public-private partnerships (PPPs) and blended finance. PPPs are contracts between the government and private entities for the delivery of public services. Such contracts would have to provide sufficient regulation to ensure that the private provision adheres to strict sustainability and transparency standards. Blended finance, by contrast, uses public funds – offered at below-market rates – to attract private investment in sectors with low private engagement. While it may save governments from taking on further debt, there is limited evidence that blended finance is widely adopted or significantly multiplies funding through private investment (Attridge & Engen, 2019). While some positive examples exist in emerging and high-income economies, low-income countries remain unattractive to investors, limiting the access of the poorest countries to this tool. Blended finance is also only feasible and desirable for profit-driven sectors, and, where applied to sectors such as the health sector, may lead to the poor losing access. Thus, PPP and blended finance should only be pursued where they can fulfil strict standards regarding transparency, effectiveness, inclusion, and feasibility.

A broader strategy to foster private investment in sustainable development and sectors is the reallocation of tax expenditures and subsidies from unsustainable to sustainable sectors, regulation (for example, of standards and permits), and the overall alignment of industrial policy with sustainability goals. Moreover, regulatory measures that lower the cost of capital for sustainable investment (outlined at a global scale above – at a national scale, the state could, for example, provide subsidised credits) can incentivise sustainable investment and access to capital by the poor.

Capacity development

As many low-and middle-income countries lack functioning systems to collect taxes, capacity building and digitalisation of tax collection are promising instruments. Similarly, sustainable policies, for instance the implementation of sustainable taxonomies by central banks, call for new knowledge resources. To this end, capacities on sustainability issues, but also for inter-sectoral and -ministerial cooperation, need to be developed in transitioning sectors, ministries and central banks. Moreover, expanding capacities for dealing with credit-rating agencies and providing improved data for ratings can be one step towards reducing the cost of capital for LICs.

Partnerships

In order to steer away from discussing wording and to move forward towards action, dedicated partnerships are needed. Several push and pull factors influencing partnerships were discussed. On the pull side, rising political fragmentation, ongoing humanitarian crises, and limited time to process summit outcomes or build strategic alliances are creating urgency. Conversely, push factors include the escalating ecological crises nearing irreversible tipping points – which demand global cooperation – and the prioritisation of areas where there is strong momentum and commitment within partner countries.

Alliances should encompass different types of partnerships: financial and technical assistance, information and data exchange, and political support for specific topics. In this regard, minilateral Groups of Friends, committed subnational governments, and increased transparency to bring in civil society and science can provide political momentum and offer spaces to develop suggestions for concrete actions. Fusing partnerships and increasing synergies between fora avoids the proliferation of standards. The streamlining of standards also calls for the involvement of all relevant international agencies.

In addition, it would be necessary to better leverage the potential of national, regional and multilateral development banks to design holistic strategies and frameworks. Further, corporate actors who have not yet implemented sustainability aspects in their operative business should be engaged by creating incentives and standards for sustainable private investment.

Within any partnership or transaction, holistic thinking and consistent standards are essential for guiding sustainable financing decisions. All costs and benefits of a transaction should be internalised throughout its entire lifecycle during the planning process. Proposed standards for such transactions include transparency, a fair and equitable distribution of responsibilities between parties, and a foundation in ex ante impact assessments aimed at achieving optimal outcomes rather than focusing solely on profit maximisation.

The 4th Financing for Development Conference: next steps

The recent Financing for Development Conference 2025 (FfD4) brought together UN member states to find solutions for scaling up development financing. To which extent were the policies discussed above reflected in the conference outcomes, and which gaps remain to be addressed?

Countries reaffirmed their commitment to several pre-existing goals: the 0.7 per cent official development assistance target; the need to align financing with and expand financing for climate; as well as the importance of engaging MDBs. The conference marked progress in several areas: tangible steps were made towards enhancing social protection systems and addressing sovereign debt challenges. There was a clear commitment to combat illicit financial flows and to support domestic resource mobilisation. With regards to partnerships, the FfD4 enabled a relatively horizontal exchange between policymakers from both the Global North and South, as well as civil society actors (Hilbrich, 2025). A significant diplomatic success was the broad international consensus reached – despite the United States abstaining, all other participating nations endorsed the outcome document.

Notwithstanding this, critical reforms in trade, tax policy, and the governance of the international financial institutions such as the IMF and MDBs were lacking – presumably also because their implementation would be hindered by the United States' opposition in the respective fora. The conference's outcome document only vaguely endorsed continued negotiations on a potential UN Framework Convention on International Tax Cooperation, and the language around increasing the transparency of tax expenditures and SDR rechannelling to MDBs was significantly diluted (Hilbrich, 2025; Olivié et al., 2025). No voluntary additional SDR initiatives were formed.

The document successfully notes concrete actions in the realm of debt policy, such as improved borrower inclusion in debt restructuring processes; a borrower's forum to assist in debt management; use of debt swaps; technical assistance for negotiating with credit-rating agencies in the case of exaggerated debt premiums; and establishing a new UN process to take part in debt sustainability reform discussions – a forum that is more inclusive to global South countries than the World Bank or IMF. However, a multilateral debt restructuring mechanism or authority is not mentioned. Moreover, concrete actions were sparse across many other areas in the outcome document. In particular, the conference failed to outline clear steps towards enhancing sustainable finance, and ODA, and measures to reduce the cost of capital and combat illicit financial flows other than through capacity support. Moreover, some countries, including the EU, distanced themselves from the UN debt process.

While some promising instruments – such as the Alliance for Debt Cancellation Clauses for the shock-related deferral of debt payments – were not included in the outcome document, or – like local currency lending or a global beneficial ownership registry to combat illicit flows – were only weakly referred to, they were however launched as separate voluntary initiatives by coalitions of the willing (Olivié et al., 2025). Another such initiative also aims to scale up pre-arranged disaster financing. The Sevilla Platform for Action introduced a new mechanism for monitoring progress in the implementation of such voluntary initiatives that aim to put the FfD outcomes into action.

Another shortcoming of the final outcome document is that it leans heavily on promoting economic growth, with insufficient regard for planetary boundaries or environmental sustainability. It also reenforces unrealistic expectations that insufficient public investments can be substituted and multiplied by private investments through blended finance (Hilbrich, 2025).

These shortcomings point to the need for future international efforts to shift from general declarations to targeted, actionable commitments that align more closely with both developmental and environmental imperatives.

Conclusions

To accelerate progress towards the SDGs, it is essential to provide a sound financial base for their implementation. In doing so, it is crucial to overcome geopolitical tensions and priority shifts. Both short-term breakthroughs as well as incremental support for long-term solutions are needed to achieve progress in financing for sustainable development. Against this background, the international community can assist in various ways:

- **Support efforts to mobilise domestic revenue.** In the long run, though challenging, this includes supporting a global tax reform, and global beneficial ownership registry. At the national level, countries should reduce harmful tax expenditures and subsidies, and consider taxing wealth, windfall profits, and natural resources. In the short run, this means improving domestic tax collection systems and providing assistance to evaluate effectiveness, to collect data and to incentivise reporting on tax expenditure. For instance, international institutions such as the IMF could include tax expenditures in country reports, while countries themselves can commit to the standards of the Global Tax Expenditure Transparency Index (GTETI).
- **Support capacity development** for sustainability in transitioning sectors and ministries – such as central banks applying sustainable taxonomies. Moreover, developing capacities in dealing with credit-rating agencies and providing improved data for ratings is important. In addition, capacity building for reforming and digitalising tax collection are promising instruments.
- **Re-focus attention on the alignment of expenditure with the SDGs, in addition to new funding.** This includes the removal of subsidies and aid for fossil-based sectors and projects. It also means that financing strategies need to be aligned with planetary boundaries. This includes credit ratings and risk premiums that account for real repayment and the long-term impact of investments on sustainability and stability.
- **Actively seek flexible partnerships,** such as pluri- and mini-lateral Groups of Friends for specific (particularly contested) issues. Moreover, it may be necessary to actively approach the unconverted: namely, to engage actors from the private sector that have not yet implemented sustainable reforms in their operative business to better understand which incentives they need; to involve development and central banks to streamline efforts for sustainability-oriented financial reforms; and to involve committed subnational governments of countries where national governments are hesitant to commit.
- **Develop concrete actions and fill the gaps.** It would be important to use FfD outcomes to give momentum to discussions in other fora such as the G20; the Annual and Spring Meetings of the IMF; and the World Bank. Both at the national level and within these fora, FfD4 outcomes can be developed into concrete actions, incentives and implementa-

tion roadmaps that align with social and environmental goals, as well as with existing action plans to reduce adoption costs. This may include the development of concrete steps on how to increase ODA and sustainable finance. Moreover, we need to fill the gaps on issues for which no multilateral agreement has been reached in FfD4 by pushing for transformative agreements in other fora and by forming voluntary initiatives. Such issues include reducing the cost of capital and illicit flows other than through capacity building; establishing a (voluntary) debt restructuring mechanism; the voluntary rechannelling of SDRs; increasing tax expenditure transparency through the abovementioned instruments; and pushing for a progressive outcome of a UN Framework Convention on International Tax Cooperation. Multi-stakeholder conferences, such as the HSC, can bring relevant stakeholders from public and private organisations together to increase momentum and develop roadmaps. In particular, private banks and other businesses need to be brought on board to discuss the restructuring of debt and tax exemptions.

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This Policy Brief is written in the context of the Hamburg Sustainability Conference (HSC). The HSC aims to bring together global decision-makers and stakeholders from politics, the private sector and civil society in order to accelerate progress and achieve breakthroughs towards the Sustainable Development Goals (SDGs). In particular, it aims to enhance trust and create new alliances, while providing an open space to discuss challenges and solutions in the implementation of the SDGs. The conference is organised jointly by the Federal Ministry for Economic Cooperation and Development (BMZ), the United Nations Development Programme (UNDP), the Michael Otto Foundation, and the Free and Hanseatic City of Hamburg. IDOS supports the HSC with its scientific expertise and through its global partnerships on the various dimensions of the SDGs and its interlinkages. This Policy Brief provides research-based recommendations on key overarching issues of the HSC process.

HSC

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