Development Financing

5 trends and 10 recommendations

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O EIXO DO DESENVOLVIMENTO

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A decade after the last **International Conference on Financing for Development, the 4th Conference**, to be held in Seville (July 2025), will need to address new or worsening challenges. Geopolitical divisions have deepened, conflicts have intensified, the responsiveness of multilateral organizations has weakened, and global dynamics are now marked by significant uncertainty. The international context is vastly different from 2015, when the Paris Agreement, the Addis Ababa Action Agenda, and the 2030 Agenda for Sustainable Development were adopted.

The convergence of crises in recent years—pandemic, the war in Ukraine, climate and environmental urgency, food and energy crises, among others—has led to a reversal in development gains and an increase in inequalities (after decades of global income convergence).

This has disproportionate effects on countries that already exhibited higher levels of poverty and vulnerability and, within those countries, on the poorest population segments. These groups spend a significantly larger share of their income on essential goods, such as food and energy, and lack savings to cushion the impacts of external shocks.

The population living in extreme poverty (those surviving on less than $2.15 USD per day, the minimum threshold defined by the World Bank) is approximately 692 million people (8.4% of the global population). The number of people living in this condition between 2020 and 2024 has consistently exceeded the figures recorded in 2018 and 2019. Additionally, the number of people experiencing moderate or severe food insecurity increased by 350 million between 2020 and 2022 alone.

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Extreme poverty is increasingly concentrated in Sub-Saharan Africa, with 67.1% of the global population living in such conditions residing on the continent. Linked to this, extreme poverty is also becoming more concentrated in countries affected by conflict and fragility, many of which experience persistent and prolonged crises—often forgotten because they fall outside the radar of dominant geopolitical and geoeconomic interests. This means that poverty is increasingly concentrated in more complex contexts where it is harder to eradicate, leaving large segments of populations "left behind."

Projections for 2030 show little progress in reducing extreme poverty, income inequalities, or the number of people facing severe and acute food insecurity. This stands in stark contrast to the goals of the 2030 Agenda and calls for adequate and comprehensive responses that fully consider people's legitimate aspirations for a dignified life while simultaneously preserving the planet.

Photo: UNICEF/Eyad El Baba

Economic and Social Council Holds 2025 Forum on Financing for Development Follow-up | UN Photo/Mark Garten

TRENDS AND RECOMMENDATIONS

1. The effects of the pandemic and crises have widened the financing gap to achieve the SDGs, most of which will not be met

In just a few years, the SDG financing gap has grown from $2.5 trillion USD to approximately $4 trillion USD. This increasing investment deficit in the SDGs in developing countries contrasts with positive sustainability trends in global capital markets. Moreover, these financing needs represent a minimal fraction of the wealth generated worldwide, highlighting that existing funds are not being directed where they are most needed. Many financial and fiscal incentives remain misaligned with sustainable development, including subsidies for fossil fuels, support for high-carbon projects, and others.

On the other hand, investments in basic service infrastructure (e.g., water and sanitation), productive sectors, and social sectors (health and education) remain low, and there is no structured and sufficient support to enable countries to undertake an ecologically and socially just transition. Given the projections that most SDGs will not be achieved, it is crucial to strengthen the global development framework at all levels, focusing on improving the conditions for its practical and concrete implementation, particularly in the areas of financing and partnerships.

RECOMMENDATIONS

- Align/redirect existing financial assets, instruments, and incentives towards the SDGs, eliminating and sanctioning practices that are contrary to or inconsistent with promoting equitable and sustainable development.

- Implement a stimulus package for the SDGs, with a particular focus on the poorest and most vulnerable countries, combining short-term (urgent) and long-term (predictable) support that encourages, especially, investment in underfunded structural development sectors, such as productive sectors, basic services, and social sectors.

2. The diversification of financing sources has not been reflected in the most fragile and vulnerable countries

The numbers indicate that those who are being "left behind" are mainly the countries with multiple structural vulnerabilities at the economic and social levels, such as the Least Developed Countries (LDCs), which have additionally experienced a trajectory of divergence in economic indicators compared to the rest of the world. In addition to their limited capacity to respond to multiple external shocks like those in recent years, these countries face significant obstacles to financing their development, as they have greater difficulty generating domestic revenues and fail to attract various external flows that depend on economic attractiveness and political stability (such as Foreign Direct Investment and private funds), remaining highly dependent on development aid—particularly in times of crisis. Moreover, countries with the highest poverty and vulnerabilities are increasingly struggling to make their voices heard, even within the developing world or the "Global South," which highlights the imbalance in global and regional governance structures, particularly those of financial institutions and other multilateral bodies where decisions that most affect them are made.

RECOMMENDATIONS

- Establish strong incentives to direct development financing funds to the areas where they are most needed (recognizing the heterogeneity of developing countries), and make use of innovative sources and a combination of instruments that leverage these financial resources in the countries with the greatest vulnerabilities (such as risk mitigation, public guarantees to leverage private funds, etc.).
- Advocate for a reform of governance in the international financial architecture to ensure the real involvement and concrete participation of the countries with the highest poverty and vulnerabilities in the main bodies, including countries in situations of fragility, LDCs, and small island developing states.

3. The unsustainable growth of external debt diverts funds that would be essential for development

The food and energy crises and debt payments are contributing to enormous budgetary pressures. Since 2020, the burden of debt servicing as a percentage of government revenues has been rising, particularly in low-income countries, hindering greater public investment in essential policies and social sectors for development. By 2024, nearly two-thirds of low-income countries are at high risk or in a state of over-indebtedness, and 40% of the global population lives in countries where governments spend more on interest payments than on education or healthcare.

This considerably limits their ability to plan for and invest in a sustainable transformation that enables balanced recovery and development processes. On the other hand, given that the nature of debt has changed significantly in recent years (due to the large increase in private creditors and bilateral creditors, particularly China), coordination has become more difficult, and the international community's response to this issue has been weak, fragmented, and ineffective. New instruments, such as the G20 Common Framework, need to be reformed in their scope, operation, and effectiveness.

RECOMMENDATIONS

- Press and contribute to the promotion of initiatives and mechanisms, properly coordinated and comprehensive, that advocate for a swift and real renegotiation and/or restructuring of the external debt of developing countries, allowing them to free up resources for their response to crises and for their development processes.

- Despite the need to ensure growth in financing at all levels, prioritize strengthening financial instruments with more favorable conditions that do not contribute to a rapid and unsustainable escalation of debt in the poorest countries.

Secretary-General António Guterres briefs the press on the impact that severe cuts to humanitarian and development funding by the United States will have on millions of people worldwide.

"The consequences will be especially devastating for vulnerable people around the world," Mr. Guterres said.

Secretary-General Briefs Press on Humanitarian and Development Funding | UN Photo/Manuel Elías

4. Unethical or criminal practices at the financial and tax levels greatly harm development processes

Illicit financial flows and tax evasion undermine development efforts, representing the loss of important resources. In many cases, countries experience greater outflows of financial flows through these channels than they receive in external flows, through corporate tax evasion, fraudulent trade invoicing, corruption, and financial transfers to tax havens. These and other practices are facilitated by a lack of regulation, lack of transparency, and the secrecy of the global financial system, allowing large-scale tax avoidance and evasion, particularly through secrecy jurisdictions ("tax havens"). Investment in greater transparency, accountability, and regulation of capital is essential.

It depends on political will and better instruments and coordination at the international and regional levels (such as a global convention at the United Nations). On the other hand, to promote tax justice, several organizations, networks, and civil society movements have called for the formulation of new tax instruments, which would need to be decided primarily through greater regional and international cooperation. Some countries have made progress in taxing large fortunes (such as Spain), and the G20 approved a proposal in this regard at the end of 2024. It is estimated that a tax of just 2% on the income of the "ultra-rich" could generate over $250 billion USD annually, resources that are essential for financing development, combating poverty, and supporting the ecological transition.

RECOMMENDATIONS

- Address gaps and deficiencies in the current architecture for combating illicit financial flows, tax avoidance, and tax evasion, including improving regulation, transparency, and accountability of the actors involved, as well as more effective global governance on this matter (specifically under the auspices of the United Nations).

- Create and strengthen forms of taxation that promote social justice—e.g., minimum taxes on multinational profits, taxation of excess profits or extreme wealth, taxation of financial transactions aimed at financing sustainable development, among others.

5. Development aid is being instrumentalized, and its budgets are under increasing pressure

For over fifty years, the international target of allocating 0.7% of Gross National Income to Official Development Assistance (ODA) has been set, and it has been repeatedly reaffirmed by countries in international and regional forums, from the United Nations to the European Union. Today, however, ODA budgets are under enormous pressure in the most developed countries, particularly in those that have contributed the most significant amounts to humanitarian assistance and global development. Many of these countries have announced cuts to these budgets and/or abandonment of the established targets (such as Sweden, Norway, Germany, and France), which has raised concerns, particularly from civil society organizations and networks.

On the other hand, while the common interests and mutual benefits of these financial flows should be highlighted, in the current context it is important to recognize that strong divisions and fragmentation are putting international solidarity at risk, while the preponderance of other interests, considered more urgent or prioritized, is causing development aid (already very limited funds) not to reach partner countries and/or to be increasingly instrumentalized for the pursuit of security and economic objectives. This contributes to the allocation of aid not meeting criteria based on needs and rights (needs-based approach and rights-based approach) nor the internationally agreed principles of effectiveness, compromising the intended outcomes.

RECOMMENDATIONS

- Advocate, pressure, and promote accountability for the fulfillment of internationally agreed commitments on development aid, both quantitatively (0.7% of GNI and 0.15% for LDCs) and qualitatively (principles of effectiveness)—including through strengthening the role of multilateral organizations and the role of civil society in this context.

- Invest in transparency in the allocation of financing and preserve the role played and the primary purpose of development aid flows— which is based on human dignity and centered on the eradication of poverty and the promotion of sustainable development.

We aspire to a fairer, more dignified and more sustainable world — one that will only be possible when we have coherent and just policies, grounded in the promotion of human and environmental rights, human dignity, and always aligned with the protection of our Common Home. The project "Coerência - O Eixo do Desenvolvimento", co-funded by Camões I.P., once again reaffirms the importance of Policy Coherence for Development (PCD) as a means to eradicate poverty and achieve the Sustainable Development Goals. It also aims to contribute to stronger and more coordinated action in reinforcing PCD as a pillar for promoting equitable, just, sustainable and inclusive development, within a framework of human rights and human dignity.
www.fecongd.org/coerencia/

FEC – Fundação Fé e Cooperação is a Portuguese Non-Governmental Development Organisation and an agency of the Portuguese Bishops' Conference. Its mission is to promote integral human development, with the vision of building a society in which every person can live with dignity and justice. Founded in 1990, FEC currently runs projects in Angola, Guinea-Bissau, Mozambique and Portugal.
www.fecongd.org

Founded in 1951 as a private institution of public utility, IMVF – Instituto Marquês de Valle Flôr is a Foundation for development and cooperation. It began its work as a Development NGO in 1988 in São Tomé and Príncipe. From the 1990s onwards, it expanded its activities to other countries, mainly Portuguese-speaking, and broadened its areas of intervention. The results achieved have made IMVF a leading organisation in the fields of development cooperation, global citizenship, and development thinking.
www.imvf.org

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