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George Mavrotas

HELLENIC REPUBLIC
National and Kapodistrian
University of Athens
DEPARTMENT OF ECONOMICS

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George Mavrotas, University of Antwerp,

Belgium, The Foundation for Studies and Research on International Development (FERDI), Centre for Regional Integration Studies of the United Nations University (UNU-CRIS),
George.Mavrotas@uantwerpen.be

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ABSTRACT

Development finance is facing mounting pressures amid global economic shocks, the lingering effects of the COVID-19 pandemic, and rising geopolitical tensions. These challenges have disrupted progress toward the Sustainable Development Goals (SDGs) and exposed vulnerabilities in the current financing architecture. The 4th Financing for Development Conference, held in Seville in July 2025, marked a renewed effort to mobilize political commitment and reorient strategies to address these setbacks. Inspired by the precedent set by the 2002 Monterrey Conference, the Seville gathering underscored the need for more pragmatic, accountable, and results-driven approaches. While Monterrey succeeded in galvanizing international support for the Millennium Development Goals (MDGs), its limitations revealed that political momentum must be matched by sustained implementation and realistic planning. In today's more volatile global environment, these lessons are even more critical. As the 2030 deadline approaches, there is growing consensus that development finance must be recalibrated to reflect current realities—through adaptive, context-sensitive strategies that can maintain progress despite uncertainty. This paper examines the evolving landscape of development finance, identifies key structural and political challenges, and issues a call to action for coordinated, concrete efforts. Without such a shift, temporary financial shortfalls risk becoming entrenched structural gaps, further jeopardizing the 2030 Agenda.

Keywords: development finance, SDGs, 2030 Agenda, FfD Seville Conference.

JEL classification: F35, H87, O19.

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1. Introduction and Background

We are living in turbulent and unpredictable times, and this has significantly affected development finance as we used to know it. The system is now at a crossroads. In the aftermath of the Financing for Development Conference in Seville last July—and following the overly optimistic expectations that surrounded its preparation—it is clear that a more pragmatic and grounded approach is now required, just a few months after this important event. Against this backdrop, this paper aims to present an overview of the key challenges currently facing the international development community in the crucial area of development finance. It also highlights the urgent need for concrete action in the years ahead, in order to navigate these challenges in an increasingly unstable and fast-changing global environment.

It is fair to argue that the Seville Conference sought to mobilize political will to <u>reverse</u> the deteriorating prospects for development finance in recent years. This was a valuable and timely objective in itself, and the organizers should be commended for their efforts on this front. We recall that a similar goal was set during the Monterrey Conference in 2002, which aimed to rally support around the Millennium Development Goals (MDGs). In retrospect, while the political momentum was successfully generated at that time, the international development community ultimately fell short of achieving the MDGs.

The author had the privilege, while working for UNU-WIDER at the time, to participate as a member of a research team of experts conducting a major study on *New Sources of Development Finance*, under the leadership of the late Prof. Sir Anthony Atkinson (Oxford University). This initiative, undertaken under the auspices of the United Nations General Assembly, aimed to proactively and constructively explore innovative sources of development finance to accelerate progress towards achieving the MDGs.

Upon completion, the study's final report was presented in 2004 to an audience of 50 world leaders at the UN General Assembly. It was met with considerable enthusiasm, although certain proposals—most notably the currency transactions tax (commonly referred to as the Tobin Tax)—elicited reservations from some member states, particularly the United States. A key lesson the author recalls from this landmark study is that achieving *universal consensus* should not be seen as a prerequisite for action. Instead, the study introduced the more pragmatic and feasible approach of "flexible geometry", whereby coalitions of the willing could move forward with implementation, even in the absence of unanimous agreement (see Atkinson, 2004). Two decades after the publication of this report, the concept of "flexible geometry" remains highly relevant, especially given today's vastly different global context in the post-Monterrey era and the lack of universal consensus regarding the need to explore innovative sources of financing for development.

Indeed, the Monterrey Consensus marked a very different era. Since then, significant global transformations have dramatically reshaped the development finance landscape, raising substantial new challenges for the international community. These developments include a major shift in global wealth toward the Global South, the emergence of China as a leading global power—exemplified by initiatives such as the Belt and Road Initiative—and the growing influence of the BRICS countries within the international development architecture. Additionally, the rise of new development banks has begun to challenge the traditional structures and practices of established institutions such as the World Bank and other multilateral development banks. Perhaps most significantly, the return of the Trump administration ("Trump 2.0") introduces profound uncertainty for the future of multilateralism and international development cooperation (see also Klingebiel, Pérez-Pineda & Berensmann (2025) for further discussion). The unprecedented closure of USAID this year symbolises this administration's departure from long-standing norms in both development cooperation and development policy more broadly. Concurrently, the war in Ukraine, the ongoing crisis in Gaza, and a global shift in priorities toward defence spending by many traditional donors—mostly at the expense of Official Development Assistance (ODA)—suggest that the world may be entering a new era, or perhaps witnessing the end of an era, for ODA and global development cooperation.

It needs also to be stressed that the Global Financial Crisis of 2008–09 disrupted progress towards the MDGs, and the unprecedented COVID-19 pandemic has further undermined the international community's efforts to achieve the Sustainable Development Goals (SDGs). Post-pandemic estimates place the annual financing needs for the SDGs at over $4 trillion (OECD 2025a), with recent figures exceeding $5 trillion. This so-called “scissor effect”—a combination of rising development needs and declining resources—has significantly increased the cost of financing the SDGs, while simultaneously causing a sharp decline in the resources available to support the 2030 Agenda. A key implication of the pandemic, as highlighted in recent literature, is that it has eroded much of the progress made in recent years toward the SDGs—progress that had been hard-won before the pandemic (OECD 2021; Arora & Sarker 2023). Moreover, the pandemic has fundamentally altered the landscape in which development assistance is assessed. This shift is especially critical for developing countries that remain heavily dependent on aid flows, many of which experienced severe economic and social shocks during the pandemic. Recent post-pandemic evaluations have rightly emphasized several trends: the reallocation of aid toward the health sector and social protection, divergent donor responses during and after the crisis, and broader implications for the aid–poverty–inequality nexus. Additionally, scholars have highlighted the disruption and reshaping of the global order, with long-term consequences for development cooperation and aid effectiveness (Brown 2021; Cassimon & Mavrotas 2021; Jakupec et al. 2023).

2. The Evolving Debate on Aid Effectiveness & the End of a (volatile) Era for ODA?

Needless to say, a comprehensive discussion of the long-standing and complex debate on whether aid works lies beyond the scope of this paper. The question of aid effectiveness is as old as foreign aid itself and has remained an active—and at times deeply politicised—debate. While it continues to engage academics, it also significantly influences public opinion, policymakers, and both aid recipients and donors. Importantly, although the discourse remains shaped by ideological divides and political agendas—with a tendency to repeatedly revisit past failures—the context in which foreign aid is currently evaluated has changed profoundly. Early assessments of aid effectiveness (e.g. Cassen 1986; Mosley 1987; Riddell 1987; World Bank 1998) dominated both academic and policy circles for many years. However, they fell short of offering conclusive evidence, due in part to limitations such as poor-quality data, neglect of aid heterogeneity, inadequate attention to aid volatility and unpredictability, and problematic econometric approaches.

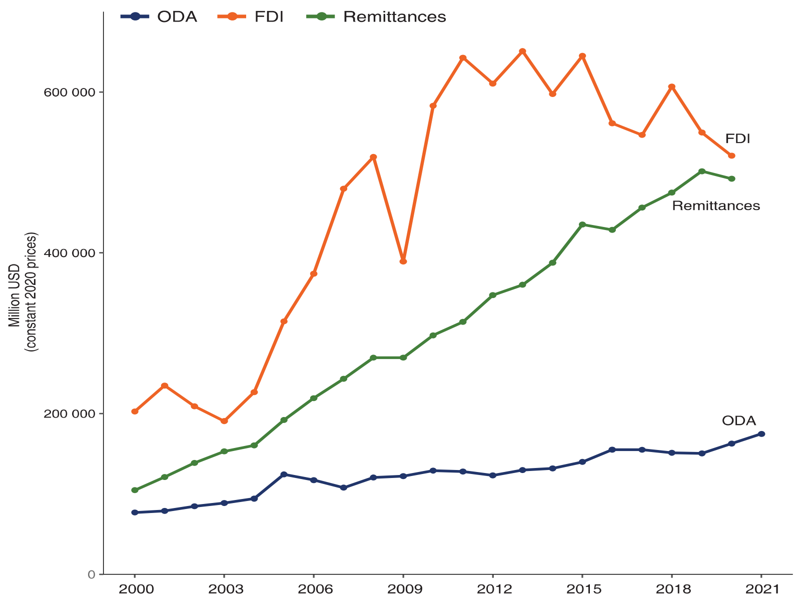
Over the past two decades, a new generation of research has emerged, offering more robust and nuanced insights into aid effectiveness. This body of work includes influential contributions by Sachs (2005), Easterly (2007), Riddell (2007), Lahiri (2007), Collier (2007), Moyo (2008), Doucouliagos & Paldam (2009), Mavrotas (2010, 2015), Banerjee & Duflo (2011), Ramalingam (2013), and Edwards (2014), among others. These studies reflect more pluralistic perspectives and apply more rigorous methodologies.

Several thematic areas in particular have become central in this new literature:

- Greater clarity on **the relationship between aid, domestic policies and growth** (Hansen & Tarp 2001; Easterly et al. 2004; Dalgaard et al. 2004; Baliamoune & Mavrotas 2009);
- Emphasis on reducing **aid volatility**, particularly during periods of fiscal constraints (Kharas 2008; Bulíř & Hamann 2008; Fielding & Mavrotas 2008; Agenor & Aizenman 2010; Hudson 2015);
- Increased attention to the **heterogeneity of aid**, i.e. examining how different types of aid yield different outcomes (Mavrotas 2002, 2005; Clemens et al. 2012; Mavrotas & Nunnenkamp 2007);
- Consideration of the **political economy of aid** (Remmer 2004; Molenaers et al. 2015);
- The role of **public opinion** in shaping aid policies (Eger et al. 2022);
- The linkage between **aid and debt relief** (Cassimon & Campenhout 2007; Cassimon et al. 2013);
- The issue of **structural vulnerability** and aid to **fragile states**, and **aid allocation on the basis of vulnerability criteria** (Guillaumont 2010; Guillaumont et al. 2017);
- The need for more **innovative and "smart" financing mechanisms** in support of the 2030 Agenda (OECD 2021, 2023).

At the same time, it is important to recognize that foreign aid alone cannot achieve development objectives without being considered alongside other key sources of development finance. In particular, there is a critical need to strengthen our understanding of the interlinkages between aid, foreign direct investment (FDI), remittances, and domestic resource mobilization (DRM)—especially given the increasing importance of these financial flows in recent years (see **Figure 1**). Surprisingly, despite the existence of an extensive body of theoretical and empirical literature on foreign aid and FDI individually, the academic exploration of their combined or interactive effects remains limited. There is a clear gap in the literature when it comes to examining the broader development finance nexus, and how these flows can complement—or potentially undermine—each other in supporting sustainable development.

Figure 1: ODA, FDI and Remittances for all developing countries, 2000-21



Source: OECD (2023).

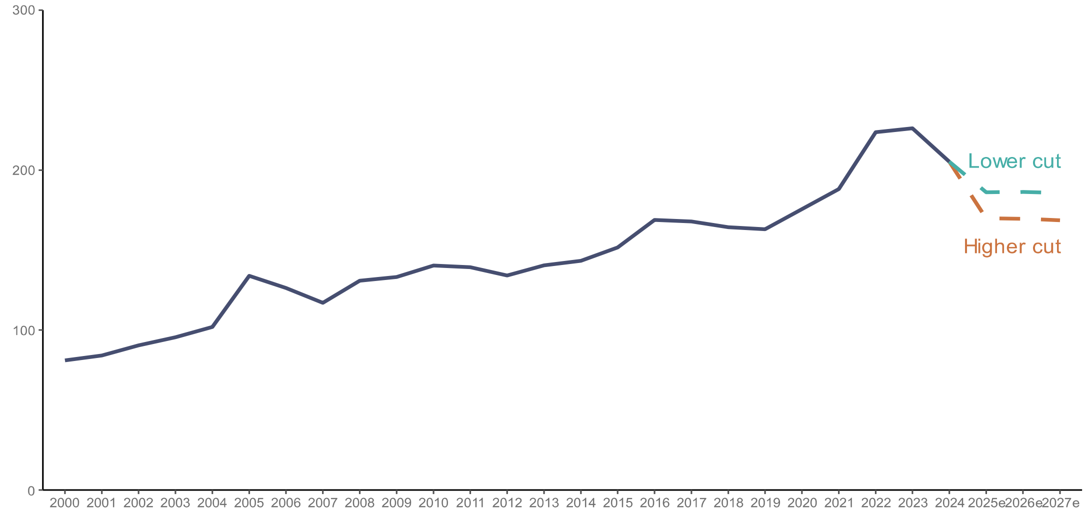
It is important to underscore that, while ODA reached a reported total of USD 223 billion in 2023, the outlook since then has deteriorated significantly. In particular, the recent dramatic aid cuts by several donor countries—driven in part by shifting geopolitical priorities and domestic pressures—cast serious doubt on the credibility and viability of the Seville Zero Draft's reaffirmation of the 0.7% ODA target (Compromiso de Sevilla for Action, 2025).

Recent data from the Organisation for Economic Co-operation and Development (OECD) indicate that ODA is projected to decline by 9 to 17 percent in 2025, following an estimated 9 percent reduction in 2024. This downward trend is primarily attributable to planned budget cuts by four of the largest bilateral donors: France, Germany, the United Kingdom, and the United States. In 2024, these countries simultaneously reduced their ODA allocations for the first time in nearly three decades. If the announced cuts are implemented in 2025, it will mark the first occurrence in history of all four major donors decreasing their ODA commitments in two consecutive years. Projections suggest that by 2027, overall ODA levels may revert to those observed in 2020 (OECD, 2025a). See also **Figure 2** below. These reductions are particularly concerning given the rising global demand for development and humanitarian assistance. The anticipated decline is expected to have the greatest impact on low-income countries, where dependence on external aid for essential services such as health, education, and infrastructure remains high. As such, sustained reductions in ODA risk undermining progress toward the SDGs and exacerbating existing inequalities in global development outcomes.

Furthermore, the closure or dismantling of USAID in particular this year by the Trump administration represents a profound and unprecedented shock to the global health and development architecture, with cascading effects across health, governance, civil society, and development sectors. A very recent study published in *The Lancet* in 2025 provides some shocking quantitative estimates, namely that over 14 million additional deaths are expected by 2030, including millions of young children, if cuts persist. More precisely, according to the authors of the study the projected additional deaths if defunding persists over the period 2025-2030 include the following shocking estimates:

- If the abrupt cuts to USAID continue, the study projects more than 14 million additional deaths globally by 2030 (i.e., excess mortality).
- Of these, approximately 4.5 million would be among children under five years old**.**
- On an annual basis, the study estimates that between 1.78 million and 2.5 million additional deaths per year could occur between 2025 and 2030 as a consequence of the cuts.
- In 2025 alone, the authors estimate around 1.8 million excess deaths if funding loss continues (Cavalcanti et al. 2025).

Figure 2: Trends in total ODA from DAC countries, 2000-24 (official data) and 2025-27 (projections), USD billion, constant (2023) prices



Source: OECD (2025), Cuts in official development assistance: OECD projections for 2025 and the near term, OECD Policy Brief, June.

More importantly, even beyond mortality figures, the weakening of systems, loss of institutional capabilities, data systems, and donor confidence could inflict long-lasting damage on health and development in many countries according to the authors of above study, and the magnitude of these estimates underscores not just the human cost, but also the fragility of gains achieved over decades in many low- and middle-income countries dependent (in part) on external support (Cavalcanti et al. 2025).

A recent FERDI study by Boussichas, Cabrillac & Pugnet (2025) offers important insights into the far-reaching implications of the significant cuts to United States ODA, particularly in light of the closure of USAID—a development that marks a fundamental shift in the global aid architecture. According to the authors, three key messages emerge from their analysis:

First, decisions by the United States regarding ODA are expected to generate both direct and indirect impacts on the volume and effectiveness of global aid. A sharp reduction in US aid is projected, with particularly severe consequences for the poorest and most vulnerable countries—those most reliant on US assistance due to the geographic and sectoral distribution of US aid programs. The withdrawal of US support is therefore likely to undermine development progress where it is needed most (see also **Tables 1** and **2**). Second, the authors argue that it is unlikely the international community will mount a coordinated compensatory response to offset the US withdrawal. Rather than prompting greater engagement from other donors, the US decision risks creating a negative demonstration effect, potentially discouraging other bilateral and multilateral donors and triggering further reductions in overall ODA flows. Third, these qualitative shifts are likely to produce quantitative repercussions, particularly regarding aid effectiveness. If ODA becomes increasingly fragmented or misaligned with poverty-reduction objectives, this could lead to diminished development outcomes, further eroding public and political support for aid. In turn, this may intensify scepticism about the legitimacy and utility of development assistance, especially in an era of competing global priorities and fiscal pressures.

Table 1: Annual ODA received by the top 5 USAID recipients between 2021 and 2023 (USD billion)

USAID recipient countries	Grant equivalent
Ukraine	6,93
Ethiopia	1,42
Jordan	0,85
Democratic Republic of Congo	0,72
Yemen	0,66

Source: CRS 2023; 2022; 2021 (OECD). Average of flows received by recipient countries over the last three years (2023, 2022, 2021). Prices are expressed in billions of USD at constant prices (base 2023). For US aid, the grant equivalent is very close to ODA disbursed, with loans representing only 0.5% per year on average for USAID and 1% for MCC.

Source: Boussichas, Cabrillac & Pugnet (2025), FERDI Policy Brief No. 284.

Table 2: Annual ODA received by the top 10 USAID and MCC LDC recipients between 2021 and 2023 (USD billion)

USAID recipient countries	Grant equivalent	MCC recipient countries	Grant equivalent
Ethiopia	1417	Benin	103
Yemen	925	Niger	99
Democratic Republic of Congo	907	Senegal	33
Afghanistan	882	Sierra Leone	7
South Sudan	812	Nepal	6
Somalia	672	Liberia	6
Sudan	551	Lesotho	6
Uganda	470	Malawi	5
Mozambique	400	Togo	3
Tanzania	275	Timor-Leste	3

Source: CRS 2023; 2022; 2021 (OECD). Average flows received by recipient countries over the last three years (2023, 2022, 2021). Prices are expressed in millions of USD at constant prices (base 2023).

Source: Boussichas, Cabrillac & Pugnet (2025), FERDI Policy Brief No. 284.

3. The Alarming Implications of Recent Trends in Development Finance: Several SDGs Are Evidently Off Track

The previously discussed shifts and setbacks in the ODA landscape are mirrored in increasingly pessimistic assessments of global progress toward the SDGs. These changes not only reflect declining political and financial commitments but also help explain the growing concern that the international development community is not on track to achieve the 2030 Agenda.

Indeed, several recent reports have clearly and convincingly argued that many of the SDGs are unlikely to be met by 2030, with particular concern surrounding Goal 1 (the eradication of extreme monetary poverty) and Goal 2 (ending hunger). These two foundational goals—central to the broader ambition of "leaving no one behind"—are among those experiencing the most significant setbacks, driven by a combination of inadequate financing, compounding global crises, and structural inequalities that continue to undermine inclusive and sustainable development. For example, the United Nations' Sustainable Development Goals Report 2025 underscores that the pace of change is insufficient to fully achieve all goals by 2030 (SDG Report (2025). The report further notes that while some development gains have been made, millions continue to face extreme poverty, hunger, lack of basic services, and inequality. Meanwhile, the Sustainable Development Report 2024 reports that only around 16 % of SDG targets worldwide are considered “on track,” with SDG 2 among the most off-track goals, and many of its targets showing stagnation or regression (Sachs et al. 2024).

On global poverty, recent analyses of trends suggest that even if Sustainable Development Goal 1 (SDG 1)—the eradication of extreme monetary poverty—is achieved by 2030, approximately one billion individuals will remain just above the international extreme poverty line of $2.15 per day, and will continue to experience absolute poverty, defined at the higher threshold of $3.65 per day (Yusuf, Anna, Komarulzaman & Sumner, 2024). Notably, this outcome is considered by the authors to represent an *optimistic* scenario.

A more plausible, or realistic scenario indicates that SDG 1 is unlikely to be met by 2030. Under this projection, approximately 700 million people will continue to live in extreme poverty, while a further one billion individuals will subsist just above the extreme poverty line. In total, this implies that by 2030, approximately 1.7 billion people will be living in absolute poverty (i.e., below $3.65 per day), with an additional one billion people situated marginally above the poverty threshold and thus highly vulnerable to falling back into poverty (Sumner & Yusuf, 2024a; 2024b).

The financial implications of poverty eradication are also noteworthy. In 2022, the estimated annual cost of eliminating extreme poverty—defined by the $2.15 per day threshold—was just under USD 70 billion. This figure corresponds to approximately 0.07 per cent of global Gross National Income (GNI), or 0.12 per cent of the combined GNI of high-income countries (HICs) within the OECD. Addressing absolute monetary poverty (at the $3.65 per day threshold) would require a significantly larger investment, estimated at nearly USD 325 billion per year, equating to 0.32 per cent of global GNI and 0.56 per cent of OECD HICs’ GNI (Sumner & Yusuf, 2025). These figures underscore both the persistent scale of global poverty and the relatively modest financial resources required to address it, especially when viewed in the context of global income and the fiscal capacities of high-income economies.

The important emerging question, therefore, is whether the above scenario can be avoided. Avoiding such a pessimistic outcome for SDG 1 appears increasingly unlikely, however, particularly in light of recent trends in ODA discussed earlier and broader challenges facing development finance. As documented earlier, the trajectory of ODA has been marked by stagnation, and in some cases, regression, with bleak prospects for the coming years. These developments have undermined the international community's ability to mobilize sufficient and sustained financing to meet the needs of the poorest populations. Moreover, development finance as a whole appears to be at a critical juncture right now. Structural shifts in global economic governance, competing geopolitical priorities, and the growing reliance on private sector instruments—often with limited pro-poor impact—have contributed to a climate of uncertainty and diminished political commitment. To sum up, without a substantial and coordinated effort to reinvigorate concessional financing, particularly for low-income and fragile countries, the prospect of meeting SDG 1 by 2030 becomes increasingly remote in view also of the limited time available to reverse the current trends.

4. The growing importance of food security and nutrition challenge in a fast- changing world

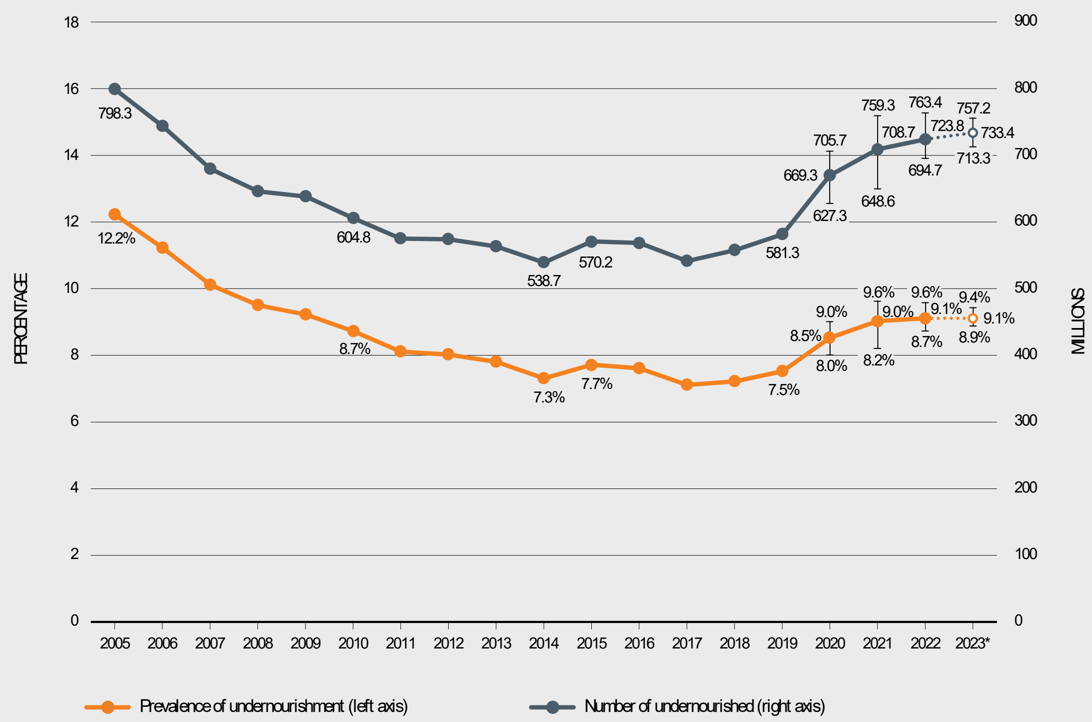
The United Nations, in its *Handbook on Human Security* (UN, 2016), clearly identifies food security—encompassing hunger, famine, and sudden surges in food prices—as one of the central domains of human security, alongside economic, health, environmental, community, political, and personal security. The interconnection between human security and food security was previously underscored in the UN General Assembly Resolution 66/290 (2012), which emphasized that ensuring access to adequate, safe, and nutritious food is foundational to sustaining human dignity and well-being. Within the framework of the 2030 Agenda for Sustainable Development, SDG 2.1 articulates the goal of ending hunger for all people, while SDG 2.2 expands this ambition to include the elimination of all forms of malnutrition, including chronic undernourishment (Rosa, 2017). However, despite these normative commitments, global trends in recent years have moved in the opposite direction.

In particular, there has been a significant increase in the number of food-insecure and malnourished people worldwide, with Sub-Saharan Africa (SSA) experiencing the most pronounced deterioration. According to *The State of Food Security and Nutrition in the World 2024* (FAO et al., 2024), the prevalence of undernourishment has remained stubbornly high, showing little improvement over the past three years following a sharp increase during the COVID-19 pandemic. Specifically, it is estimated that between 713 and 757 million people faced hunger in 2023—equivalent to 1 in 11 people globally, and 1 in 5 in Africa (FAO et al., 2024; see also **Figure 3**). These findings are consistent with evidence from a growing number of country studies that highlight the persistence of food insecurity and malnutrition across SSA (e.g. Fadare et al., 2019a, 2019b).

Structural drivers such as non-inclusive economic growth and widening income disparities further exacerbate food insecurity and nutritional inequalities across the region. As Gordon (2022) notes, growth in SSA has often failed to translate into improved food access or social protection for vulnerable populations. Compounding this, poor governance, weak labour protections, and fiscal instability frequently result in months of unpaid salary arrears or inadequate minimum wages, directly undermining household purchasing power and food security (Reeves et al., 2021).

As the Food Security and Nutrition 2024 report argues, "the lack of improvement in food security and the uneven progress in the economic access to healthy diets cast a shadow over the possibility of achieving Zero Hunger in the world, six years away from the 2030 deadline" (p. xvi). The same reports also reports projections according to which 582 million people will be chronically undernourished at the end of the decade with more than half of them in Africa (see also **Figure 4**).

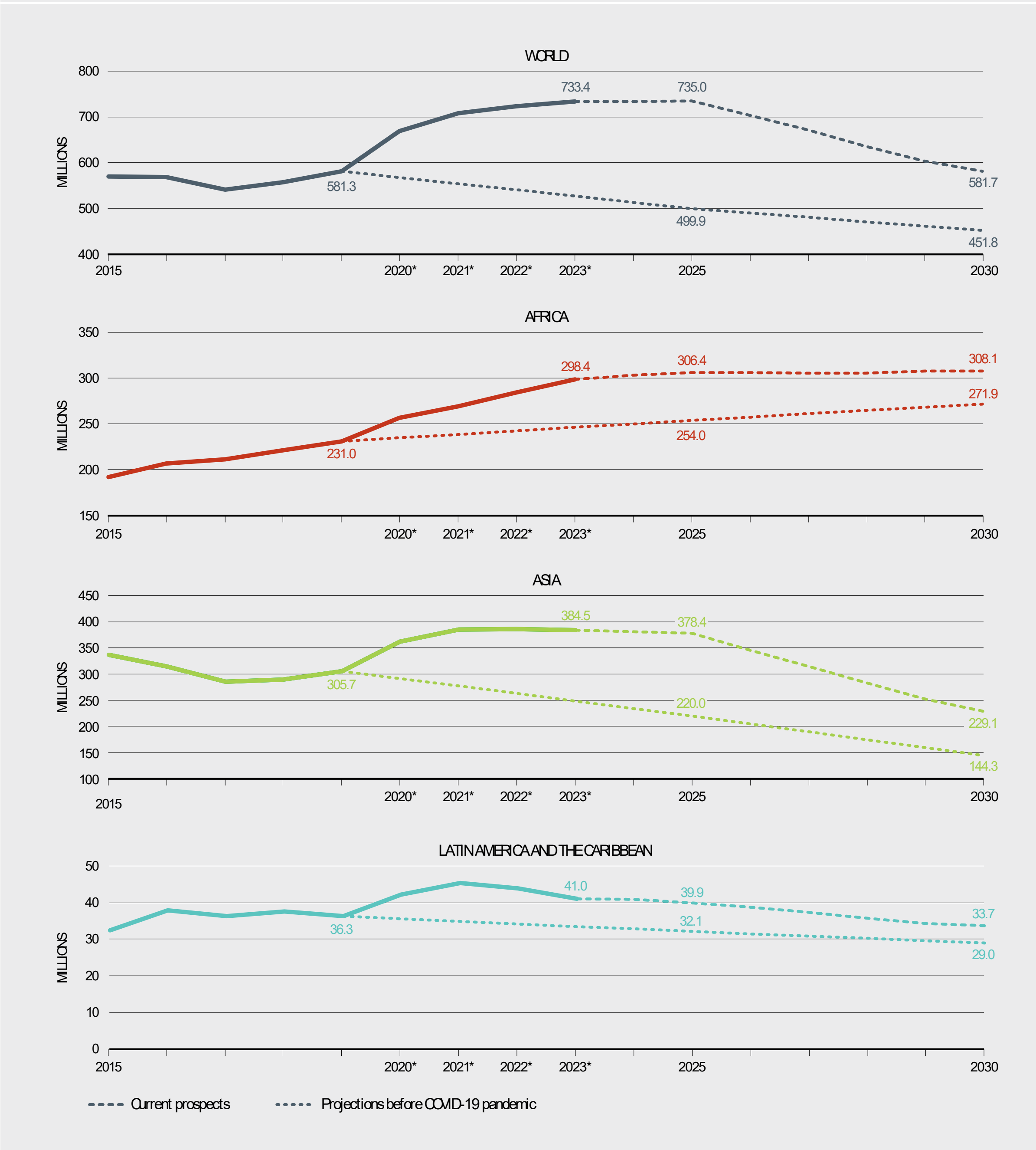
Figure 3: The sharp increase of global hunger from 2019 to 2021 persisted at the same level to 2023.



NOTES: Bars show lower and upper bounds of the estimated range. * Projections based on nowcasts for 2023 are illustrated by dotted lines.
SOURCE: FAO. 2024. *FAOSTAT: Suite of Food Security Indicators*. [Accessed on 24 July 2024]. https://www.fao.org/faostat/en/#data/FS.

Source: FAO et al. (2024), The state of food security and nutrition in the world report 2024

Figure 4: Projected numbers of undernourished people-clear indication that the world is far off track to achieve zero hunger Goal 2 by 2030



Source: FAO et al. (2024), The state of food security and nutrition in the world report 2024

A relatively underexplored dimension in the food security and nutrition literature is the complex nexus between development finance and food and nutrition security, particularly in vulnerable regions such as SSA. While considerable attention has been paid to agricultural productivity, dietary quality, and food system resilience, less focus has been given to how different forms of external finance—aid, foreign direct investment (FDI), remittances, and concessional loans—interact with food security outcomes across diverse governance contexts. Institutional quality and governance play a central role in shaping this nexus (Dhahri & Omri, 2020; Ogunniyi et al., 2020). Weak institutions and poor governance can diminish the effectiveness of development finance by limiting its reach, reducing absorption capacity, and undermining its long-term impact on food systems and household-level nutrition. Conversely, stronger institutions can enhance the allocation, targeting, and oversight of financial flows, increasing their developmental effectiveness in improving food access and nutrition outcomes.

This issue has become especially salient in light of recent global disruptions. Many SSA countries remain highly dependent on imported staple crops and agricultural inputs, rendering them particularly vulnerable to external shocks in global food supply chains. The COVID-19 pandemic and the Russia–Ukraine war, which began in February 2022, have both contributed to major disruptions in global commodity markets and input supply chains—raising food prices and undermining food security across low-income, import-dependent nations (IFPRI, 2022; Kaiser, 2022).

Emerging new empirical research further underscores the importance of adopting a heterogeneity-based approach when examining the relationship between development finance and food security. Recent studies (Cassimon, Fadare, & Mavrotas, 2021, 2022, 2023) have demonstrated that the impact of various types of external capital flows on food and nutrition security can vary considerably depending on the quality of governance. These studies reveal nuanced interactions: for instance, FDI may contribute positively to food security in settings with strong institutional frameworks, while similar inflows may have negligible or even adverse effects in contexts characterized by corruption or weak public accountability. Such findings suggest that governance should not be treated as a control variable but rather as a mediating factor in the finance–food security relationship. This opens important avenues for both policy and research: tailoring development finance strategies not only to financial needs but also to institutional realities may be key to achieving meaningful improvements in food and nutrition outcomes in SSA and beyond.

5. The climate change challenge and 'progress' made with climate finance

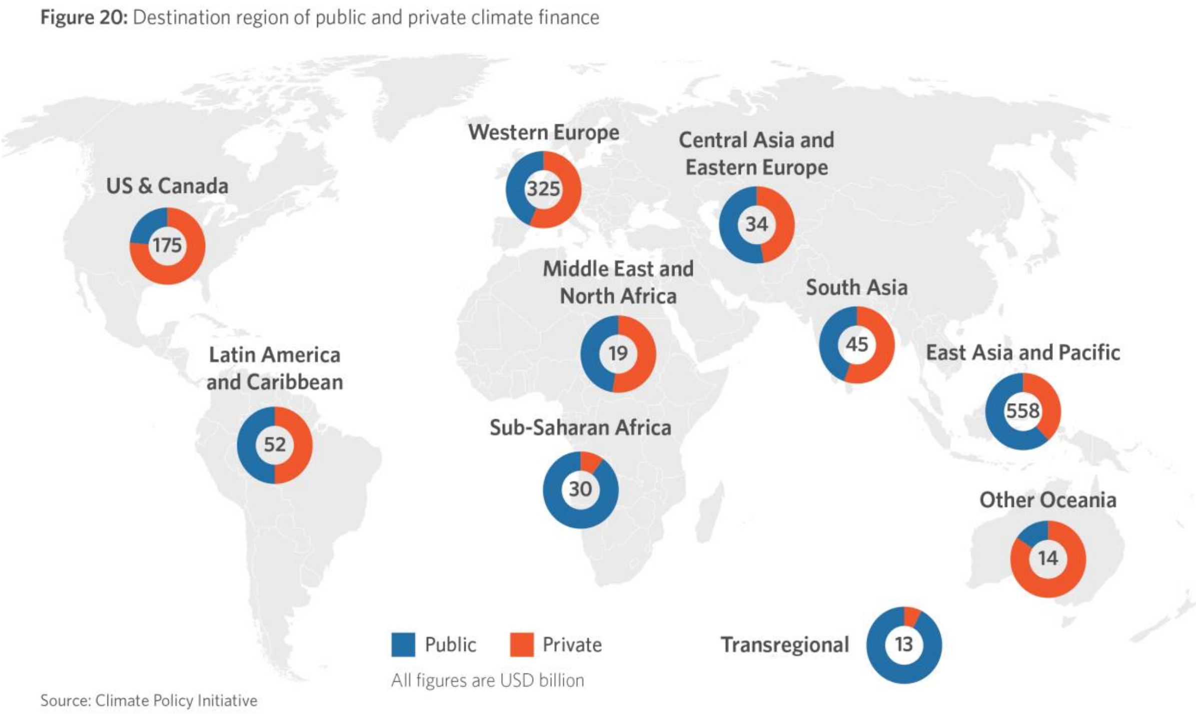
Although some progress has been made in scaling up climate finance following the Paris Agreement, recent assessments indicate that the current volume of climate-related financial flows falls significantly short of the levels required to meet global climate goals. In particular, the gap between climate finance needs and actual disbursements remains substantial, posing a major obstacle to effective climate mitigation and adaptation—especially in developing countries. According to the Climate Policy Initiative (CPI, 2025), achieving the objectives of the Paris Agreement and avoiding the worst impacts of climate change will require global annual climate investments to reach approximately USD 6.3 trillion by 2030. This figure is several times higher than current global climate finance flows, underscoring the scale of the challenge.

Of particular concern is the persistent adaptation finance gap, which disproportionately affects developing countries. The United Nations Environment Programme (UNEP, 2024) estimates that developing countries will require between USD 187 and 359 billion per year for adaptation alone. However, current levels of international public finance for adaptation remain far below these requirements, leaving many climate-vulnerable countries exposed to increasingly severe environmental and socio-economic risks.

These figures highlight the urgent need not only to increase the volume of climate finance, but also to improve the quality, predictability, and accessibility of financial flows, particularly for least developed countries and small island developing states. Closing the climate finance gap will be crucial for enabling an equitable and effective global response to climate change.

As **Figure 5** seems also to suggest, the bulk of climate finance is concentrated in certain regions (e.g. Western Europe, East Asia & Pacific), while others (notably Sub-Saharan Africa) receive comparatively smaller volumes (CPI, 2025).

Figure 5: The Global Landscape of Climate Finance



Source: Climate Policy Initiative (2025)

6. Instead of an Epilogue: Pressing Questions and the Imperative of Seeing the Bigger Picture

As the global development landscape becomes increasingly complex and uncertain, it is more critical than ever to pause and reflect on some of the foundational questions underpinning the future of development finance, multilateral cooperation, and sustainable development. Rather than offering a conventional conclusion, this section aims to provoke further reflection by highlighting unresolved tensions, emerging dilemmas, and the strategic need to reconnect fragmented debates into a coherent, long-term vision.

In light of the earlier discussion on the challenges of development finance and the evolving landscape following the Seville Conference, several critical (unanswered in many cases) questions have emerged. A key issue is whether the continued emphasis should be placed on closing the (increasingly widening) financing gaps through enhanced resource mobilisation to achieve the SDGs, or whether greater focus should instead be directed toward reshaping global structural transformation—particularly by unlocking the full potential of development finance through innovative public-private partnerships (Mazzucato, 2025; Cassimon & Mavrotas, 2025). The work of Mariana Mazzucato is particularly relevant in this context, especially her call for a redefined role of the public sector—not merely as a "fixer" of market failures, but as an active "doer" and shaper of markets. Her concept of the entrepreneurial state (Mazzucato, 2013) underscores the critical importance of a mission-oriented approach (Mazzucato, 2021) which not only drives innovation but can also play a catalytic role in steering private sector engagement toward development finance objectives.

Notably, despite expectations set during the Addis Ababa Action Agenda on Financing for Development, the private sector has, thus far, failed to contribute substantially to bridging the development finance gap, particularly in support of the SDGs. This is in part due to the centrality of risk considerations in private sector decision-making—an issue that has only intensified in the current, highly volatile global economic environment. In light of these challenges, a pressing question arises: Can new incentive mechanisms be designed to encourage more meaningful private sector participation in development finance, particularly in ways that go beyond existing, limited contributions? Addressing this important question is crucial, especially given the urgent need to identify and mobilize innovative sources of finance in the coming years. In doing so, it is also essential to draw on past experiences and insights, such as those outlined in the 2004 UNU-WIDER study on new sources of development finance that we discussed earlier, which still remain highly relevant despite today's changing policy landscape (see in particular the argument about "flexible geometry").

Closely related to the above considerations is the revived debate on the relationship between aid and Global Public Goods (GPGs). A growing number of scholars have called for the recognition of GPGs as a distinct and urgent policy domain that necessitates a mission-oriented approach to collective global action (Brown, 2021; Kaul, 2021; Mazzucato, 2021). Within this discourse, Kaul (2021) compellingly argues that the COVAX initiative, established during the COVID-19 pandemic to ensure equitable global access to vaccines, fell short of embodying an integrated, mission-oriented strategy. Rather than serving as a coordinated global response to a quintessential GPG challenge, COVAX instead exposed the limitations of a fragmented, business-as-usual approach by the international community—highlighting the persistent gap between GPG rhetoric and effective collective action.

More recently, Hegertun, Davis & Tornes (2025) have advanced the discussion on GPGs by emphasizing the need to establish a clear conceptual and principled distinction between initiatives aimed at the provision of GPGs and those focused on mitigating the local consequences of global challenges—or, more specifically, the under-provision of such goods. The authors particularly argue that "rather than aggregating a "coalition of the willing", as in classic development practice, we need to have "fair share" calculations (i.e. an attempt to develop a mutually acceptable algorithm based on salient features such as population, GDP, contribution to a problem, etc.) determining the suggested contribution of all nations, inclusive governance for all who contribute, and accountability to encourage full participation and expose free riders" (p.72).

Finally, it is essential to recognize that any meaningful discussion of the current state of development finance must also engage with broader structural issues, including the architecture of the development finance system (OECD 2025), the evolving role and necessary reforms of multilateral development banks (MDBs) (Walle, 2025; Lee and Matthews, 2024; Bartzokas, 2023), the allocation and utilization of Special Drawing Rights (SDRs) (OXFAM 2024; Zattler 2024), and recent challenges related to the governance of ODA, including recent proposals for potential relocation of the governance of ODA from Paris to New York, specifically under the United Nations framework (Klingebiel, 2025).

Moreover, the architecture of global development finance—including the role of global financial safety nets, new SDR allocations, and mechanisms to manage global crises—has come under increasing scrutiny in the post-pandemic period (Cassimon & Mavrotas, 2021, 2023) as well as in more recent analyses (OECD 2025b). Indeed, the dramatically altered landscape of development finance raises significant policy questions on multiple fronts. These include, among others, the need to establish more effective global intervention mechanisms within the development finance architecture to support the SDGs and the question of whether the current

Global Financial Safety Net remains fit for purpose (Cassimon & Mavrotas, 2023).

Against this backdrop, there have been various recent calls to extend the SDGs timeline towards 2050, acknowledging the near certainty that most targets will not be achieved by 2030 (Nerini et al. 2024). Nonetheless, the practical and political challenges of implementing such an extension are substantial and cannot be overlooked, as it is unlikely to be a politically popular option.

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