Fourth International Conference on Financing for Development

Side Event Proposal

Mobilizing Finance for Sustainable Development: Prospects and Challenges of Innovative Financing Instruments

Room Side Event 2, Monday 30 June 2025, 12:30 pm-2:00 pm | Seville, Spain
In-person meeting | High level officials, experts, private sector, donors

A. Introduction

The Fourth International Conference on Financing for Development (FfD4) presents a critical opportunity to explore strategies for mobilizing the much-needed financial resources to achieve the Sustainable Development Goals (SDGs). The financing gap has widened significantly over the past five years, now reaching approximately $4 trillion annually at the global level. High debt burdens further limit fiscal space, making it difficult for many countries to allocate necessary resources toward sustainable development. This is exacerbated not only by the decline in concessional finance and Official Development Assistance (ODA), but also by structural challenges including limited economic diversification, underdeveloped financial systems, rising inequality, and conflict and instability in many developing countries.

Innovative Financing Instruments for SDGs and Climate Action

There is a growing focus on innovative financing mechanisms that mobilize, govern, or distribute funds beyond ODA[1]. An array of options for mobilizing finance while focusing on sustainable development principles has emerged in recent years, including thematic bonds, sustainability-linked bonds, programme-based climate and SDG debt swaps, and blended finance solutions. Governments and central banks can drive the adoption and growth of these solutions by promoting awareness, developing standards and regulations, implementing fiscal, monetary, and prudential policies as incentives, and tapping into new markets for development finance.[2]

Several countries have already issued thematic bonds or are developing sustainability-linked bonds with key performance indicators aligned to climate goals and SDGs. However, despite increased attention to these instruments, investment in sustainable development

[1] United Nations Economist Network. Policy Brief: Innovative Financing Mechanisms and Solutions. https://www.un.org/sites/un2.un.org/files/innovative_fincancing_14_march.pdf.
[2] Ibid.

has not reached expectations, nor has it adequately prioritized sustainable development impact. Structuring and executing these financial transactions remain complex, particularly for developing economies.[3] Similarly, capacity gaps remain in developing debt swap programmes for financing climate action and SDGs. Special attention is being given to the development of toolkits that can support countries' efforts in issuing thematic and sustainability linked bonds, as well as structuring blended finance options and developing multi-sectoral debt swap programmes.

Thematic bonds, including green, social, sustainability bonds, and sustainability-linked bonds (SLBs), have emerged as key instruments for financing green or sustainable activities. These use-of-proceeds bonds are structured to fund earmarked sustainability-related projects. SLBs, on the other hand, link borrowing costs to the achievement of predefined sustainability performance indicators. In 2024, global issuance of thematic bonds by the public sector amounted to $372 billion, with green bonds constituting 55 per cent of these issuances. Approximately $1.99 trillion, or 32 per cent of all cumulative thematic bonds issued by the end of 2024, are issued by the public sector.[4]

Debt-for-climate and debt-for-SDG swaps provide an avenue for redirecting debt service payments toward climate action and sustainable development investments. These instruments have gained renewed interest as effective tools for enhancing fiscal space. The United Nations Economic and Social Commission for Western Asia (ESCWA) launched the "Climate/SDGs Debt Swap – Donor Nexus Initiative" in 2020 to assist governments in structuring debt swap programs with robust performance monitoring frameworks, in line with national priorities in climate action and sustainable development.[5] ESCWA has piloted the initiative in Tunisia and Jordan, with Mauritania in early engagement stage.

In Africa, the United Nations Economic Commission for Africa (ECA) is promoting debt-for-nature swaps, a transformative financial mechanism aimed at addressing sustainability and climate change. In the Democratic Republic of Congo (DRC), for example, a pilot project was developed to support the first "debt-for-industrialization" swap aimed to advance the development of local value chains for batteries and electric vehicles (EVs). As part of its endeavor, ECA is also leading the secretariat of the Sustainable Debt Coalition (SDC) which aims to increase the available finance for green development efforts, by helping to reduce

[3] UNECA. Innovative financing instruments for sustainable climate finance and debt management in middle-income countries. Concept note for side event at ECA Conference of Ministers 2025. https://www.uneca.org/eca-events/sites/default/files/resources/documents/com/2025/side-events/one_pager_tthe_macroeconomic_policy_finance_and_g_eng_copy_copy_copy.pdf/ [the link is not working. Kindly check again]
[4] The World Bank, 2025. Labeled Sustainable Bonds Market Update – February 2025. Labeled-Bond-Quarterly-Newsletter-Issue-No-10.pdf. The data includes issuance of green, social, sustainability, sustainability-linked and transition bonds.
[5] UN ESCWA. Climate/SDGs Debt Swap Donor Nexus Initiative. https://www.unescwa.org/sites/default/files/inline-files/Climate%20SDGs%20Debt%20Swap%20-%20Donor%20Nexus%20Initiative_1.pdf.

green borrowing costs for developing countries, improve financing terms and ease of implementation, and address other debt issues.

Blended finance involves leveraging public development finance, including the issuance of thematic bonds, to attract private commercial and concessional investments for projects that may not otherwise be financially viable. Between 2012 and 2022, private finance mobilized by bilateral and multilateral development finance providers grew at an annual rate of 12.55%, reaching $61.5 billion in 2022. Additionally, emerging mechanisms that link debt swaps with credit enhancement and guarantees from international financial institutions (IFIs) present further opportunities to channel investment toward climate action and the SDGs, and to share risks and rewards fairly between the public and private sectors.

Leveraging Private Sector Finance

FfD4 provides an opportunity to discuss more ambitious proposals to mobilize private sector resources to support financing climate action and SDGs. Among the proposals, ESCWA has called for the establishment of a global mechanism to de-risk thematic bonds to incentivize private sector engagement in climate-resilient and SDG-aligned projects, enhance transparency, minimize risks, and maximize outcomes. Commitments to expand thematic bonds, impact funds, and blended finance initiatives with standardized metrics for development impact are essential to align private capital with long-term sustainability goals.

Challenges and Prospects in Scaling Up Financing for Development

Despite increased global attention to innovative finance instruments, investment in sustainable development remains below expectations. Several challenges must be addressed to integrate these instruments effectively into financing frameworks, including:

- **Enabling conditions and country platforms:** To effectively tap into the market for innovative financing instruments, governments should foster an enabling environment which includes inter-ministerial coordination mechanisms to develop pipeline of projects in a country platform approach, complementary instruments and policies such as planning and financing frameworks, statistical capacity, legal and regulatory framework (including those related to development banks to help them pursue their distinctive development role), and collaboration with the private financial sector, among others.
- **Capacity gaps**: Many countries lack expertise in structuring, executing, and monitoring these financial instruments. Capacity gaps exist in preparing project pipelines or programmes with key performance indicators that can attract investors and blended finance.
- **Reporting and monitoring Requirements**: Effective monitoring of innovative finance mechanisms entails a heavy data requirement, including data collection processes, cross-agency data coordination, and standardized monitoring and reporting. The complexity and costs of measuring and verifying climate and SDG impact poses

another barrier to broader adoption. There is scope to address this concern by making efficient use of emerging technology.

- **Investor attraction**: Developing economies have consistently struggled to attract large-scale private sector investment into SDG sectors due to perceived risks and limited creditworthiness. Additionally, domestic private finance in many developing countries remains on the sidelines. Incentives, de-risking mechanisms and clear, predictable and consistent regulatory regimes can significantly bring down perceived risks.
- **Taxonomies and standardization**: The lack of standardized taxonomies for sustainable finance limits comparability across countries and regions and increases costs for investors operating across jurisdictions.
- **Knowledge exchange**: Limited experience-sharing among countries and regions increases the cost and complexity of expanding financing portfolios.

Taking into account these challenges, achieving transformational change through program-based financial instruments requires enhanced international financial cooperation, innovative policy frameworks, targeted capacity-building efforts, and effective outreach to commercial and concessional finance providers, including:

- **Strengthened regulatory frameworks** to support thematic bond issuances and blended finance structures.
- **Institutionalized country platforms** that emphasize inter-ministerial coordination mechanisms to operationalize innovative financing frameworks and improve access to innovative financing instruments.
- **Enhanced capacities** to develop country programmes that support economic prosperity and climate resilience, contributing to national priorities and SDG targets.
- **Empowered development banks** to pursue risk informed approaches to financing sustainable development.
- **Increased credit enhancement and risk mitigation mechanisms** to improve the attractiveness of sustainable financing instruments.
- **Expanded knowledge-sharing platforms** to facilitate cross-country learning and collaboration.
- **Better coordinated outreach platforms** that can bring consortiums of investors with different risk profiles and impact mandates together to finance pipeline projects.

FfD4 provides a timely platform to discuss these strategies and opportunities and mobilize global commitments toward sustainable financing. This side event will provide a window for analysis, discussion, cooperation, and action plans for the timely and effective management of financing for sustainable development in developing countries.

B. Objective of the Side-Event

Against this backdrop, UN regional commissions – ESCWA, ECLAC, ECA, ESCAP and ECE – are organizing this high-level side-event which will bring together policymakers and practitioners from multiple regions to exchange experiences, discuss challenges, and explore opportunities in mobilizing finance for sustainable development through innovative instruments such as Green, Social, Sustainability, and Sustainability-linked (GSSS) bonds, debt swaps for financing climate action and SDGs, blended finance, and other mechanisms. The discussions will focus on:

- **National sustainable financing frameworks**: Sharing recent country experiences in establishing green and sustainable financing frameworks and role of innovative financing instruments in their implementation.
- **GSSS bond issuance and post-issuance challenges**: Identifying best practices, policy measures, regulatory frameworks, and risk management requirements for issuing and managing GSSS bonds effectively as well as building demand for such instruments.
- **Opportunities and challenges of debt swaps**: Discussing the opportunities of developing debt-for-climate and debt-for-SDG swaps and exchanging lessons learned in inter-ministerial cooperation, key performance indicators, project prioritization, and civil society engagement.
- **Country platforms to improve access to innovative finance**: Setting up inter-ministerial mechanisms to develop country platforms and operationalize sustainable financing frameworks, which can improve preparedness for accessing GSSS bonds, debt swaps, and other innovative financing instruments.
- **Impact on SDGs and National Priorities**: Examining the role of GSSS bonds and debt swaps in advancing sustainable development objectives and addressing country-specific priorities.

C. Programme and Speakers [TBC]

Format/time: Panel discussion of 90-minutes in two segments, with a Moderator, and Q&A.

Moderator:

- **Mr. Jean-Paul Adam**, Director of Policy and Advocacy, United Nations Office of the Special Adviser on Africa

Welcome remarks*: (3 minutes each)*

- **Dr. Rola Dashti**, UN Under-Secretary-General and Executive Secretary, ESCWA
- **Mr. Claver Gatete**, UN Under-Secretary-General and Executive Secretary, ECA
- **Dr. Mahmoud Mohieldin,** UN Special Envoy on Financing the 2030 Agenda for Sustainable Development

Panelists: *(5-7 minutes each) (TBC)*

- Ministry of Finance, Minister/Deputy, ECLAC member state
- Ministry of Finance, Minister/Deputy, Tajikistan
- Ministry of Finance, Minister/SG, Tunisia
- Ministry of Finance, Minister/Deputy, DRC
- Ministry of Finance, Minister/SG, ESCAP member state

Discussants: *(3-4 minutes each):*

- Arend Kulenkampff, Director, Sustainability-Linked Sovereign Debt Hub (SSDH), representing secretariat of Credit Enhancement Taskforce
- Private sector representative
- European Investment Bank (EIB) representative

Q&A *facilitated by the moderator (20 minutes)*

Closing remarks: *(3 minutes each)*

- **Ms. Tatiana Molcean**, UN Under-Secretary-General and Executive Secretary, ECE
- **Moderator**

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