2025 Trade and development report

Chapter V

New policy frontiers: Building climate-economic resilience in the global South

KEY FINDINGS

- Inadequate economic resilience remains a binding constraint for the global South. Climate change and other non-economic shocks aggravate the challenge even as financing shortfalls are acute. Requirements for climate finance alone in developing countries are projected to total $1.1 trillion to $1.8 trillion annually from 2025 to 2030.
- From 2023 to 2030, 48 developing countries face an estimated annual cost of $5.5 trillion to combat climate change, protect biodiversity and reduce pollution, around 18 per cent of combined GDP.
- For the most vulnerable developing economies, a vicious cycle of rising climate costs and debt has set in. Climate-related shocks reduce economic growth, which diminishes fiscal revenues. At the same time, borrowing costs spike as creditors raise rates based on higher risks.
- The world's most vulnerable economies spend $20 billion annually on higher interest payments due to climate-related risks, despite contributing little to climate change. This cost has grown from $5 billion in 2006. By 2023, it reached a cumulative total of $212 billion.

United Nations

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Policy takeaways

- Aligning development and climate goals through a successful green structural transformation should be a paramount consideration in building climate-economic resilience.
- Countries in the global South need an integrated policy framework to mobilize domestic resources, combat illicit financial flows, advance green structural transformation and design regionally oriented integration strategies.
- The role of the global North remains essential. Developed countries should take the lead in speeding up the decoupling of economic growth from environmental degradation, strengthening North–South cooperation, and addressing declining official development assistance.
- In a deeply interdependent world, viable, networked multilateralism to respond to current challenges can draw on three guiding principles: inclusivity and a development orientation, constructiveness and synergies, and pragmatism and relevance.

A. Introduction

The apparent resilience of the global economy in 2025 should not distract from its underlying fragilities. For the global South, a lack of resilience and mechanisms to sustain growth remain core concerns.

Domestically, limited fiscal space restricts measures to absorb or mitigate economic shocks, as demonstrated during the COVID-19 pandemic, when the average relief package in developing countries was much smaller than in developed countries (UNCTAD, 2020a). Debt burdens, limited development finance and insufficient economic diversification combine to weaken resilience.

External factors compound these challenges. Over the past three decades, developing countries have diversified their trade profiles in goods and, to a lesser degree, in services. But the outcomes remain uneven, complicated by financialization and new geoeconomic realities.

1. The most vulnerable economies spin in a vicious climate-debt cycle

The climate crisis exacerbates current concerns, trapping vulnerable countries in a vicious cycle of climate impacts and debt. The frequency of extreme climate events is rising (figure V.1). Developing countries have seen doubling of such events from an annual average of at least 127 between 1990 and 1994 to 271 between 2020 and 2024. Meanwhile, the number in advanced economies increased by 49 per cent, from 74 to 119 extreme climate events per year during the same period.

As climate-related disasters become fiercer and more frequent, policymakers in developing countries should deal with both immediate and long-term risks such as floods, droughts, sea-level rise and storms, demonstrated recently by devastation in Pakistan, the Philippines and the Caribbean, among many others. The economic costs are daunting. The Vulnerable Twenty Group of economies (V20), for instance, may have lost $525 billion due to climate change effects from 2000 to 2019 (V20, 2022).

Recovery requires significant resources. Yet with international support falling well short of needs, borrowing to rebuild after a climate disaster generally increases (IMF, 2019). This causes two adverse, interrelated impacts. First, climate-related shocks reduce economic growth and depress fiscal revenue. Second, borrowing costs increase as creditors raise rates to price in higher risks (Buhr et al., 2018). More borrowing at higher costs amid lower fiscal revenue reduces the capacity of affected countries to service their debt.

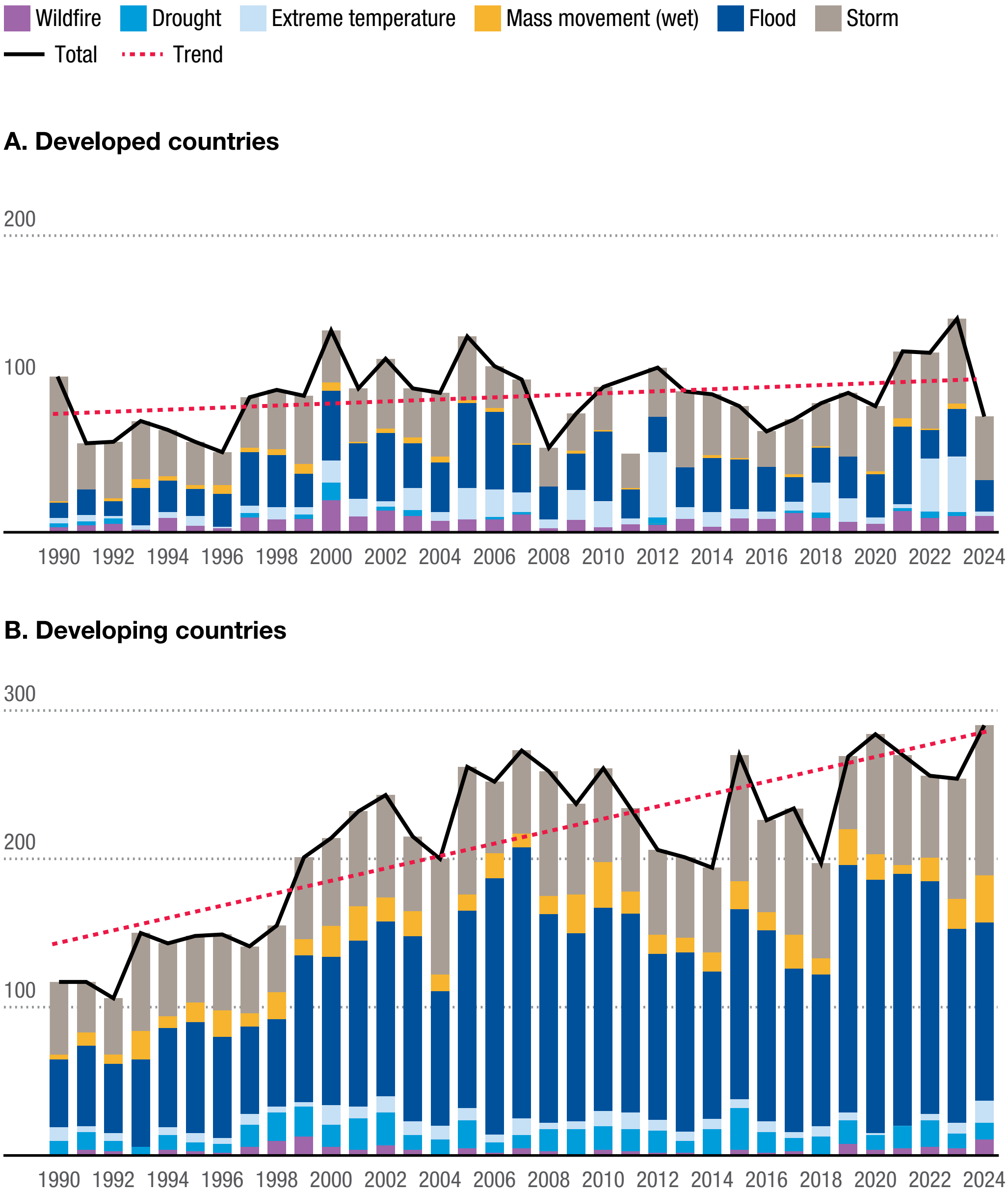
Lower debt service capacity results in a deteriorating credit risk profile and credit downgrades. As a result, the cost of servicing current sovereign debt (debt with variable interest rates) and the cost of new borrowing both increase even more. Greater debt distress and reduced fiscal space leave countries unable to invest in climate adaptation and resilience-building, making them more vulnerable to climate-related shocks. Countries are effectively trapped between servicing debt and investing in resilience and climate-aligned structural transformation.[35]

Countries with higher exposure to climate vulnerability, such as members of the Climate Vulnerable Forum, have debt costs that are 117 basis points higher on average (Kling et al., 2025). A calculation based on this static estimate conservatively suggests

[35] For more details, see the Expert Review on Debt, Nature and Climate, 2024.

Figure V.1
The frequency of extreme climate events is rising faster in developing countries

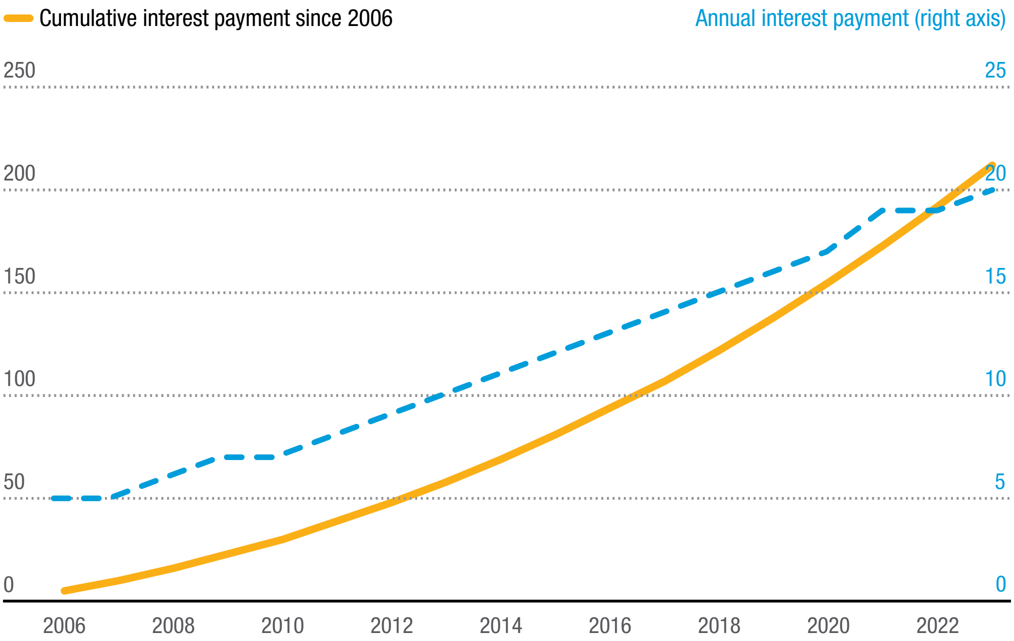
Number of climate-related natural disasters, by category



Source: UNCTAD based on the EM-DAT International Disaster Database.

Note: The count includes events that meet at least one of the following criteria: 10 or more people reported dead, 100 people reported as affected, a declaration of a state of emergency or a call for international assistance.

Figure V.2
Interest payments have soared in the most climate-vulnerable countries
(Billions of dollars)



Source: UNCTAD based on Buhr et al., 2018 and World Bank data.

Note: Interest payments attributable to climate vulnerability are computed by using the estimate proposed by Buhr et al. (2018) of the additional cost of sovereign borrowing in V20 countries that is attributable to climate vulnerability. This estimate is multiplied by the stock of total external debt of V20 countries.

> Climate-resilient structural transformation will require *more* debt. But this is not realistic under current financing arrangements.

that these countries transfer $20 billion per year to external creditors just to cover higher interest costs due to climate risks, even though they have barely contributed to generating that risk. This cost has risen from $5 billion in 2006, totalling a cumulative $212 billion by 2023 (figure V.2).

The cycle of climate and debt in a context of already high and unsustainable debt burdens suggests a new development paradox. To make the significant mitigation and adaptation investments required for climate-resilient structural transformation, many developing countries will need to take on *more* debt. But this is neither realistic nor desirable under current financing arrangements.

This chapter explores key policy strategies to build climate-economic resilience, at the national, regional and international levels. Section B outlines several key dimensions of a broad climate and development agenda. The section proposes measures to address macroeconomic vulnerabilities and promote green structural transformation. Section C calls for international actions, focusing on North–South cooperation and suggesting some key principles for a networked multilateralism. Section D concludes.

B. Recalibrating policy strategies to build climate-economic resilience in the global South

1. Aligning dual agendas for development and climate

While national contexts and development strategies differ widely across the global South, most developing countries today face a two-pronged agenda: development and climate. Broad development priorities include sustaining GDP growth, raising income levels and reducing poverty, and advancing economic diversification and structural transformation. Addressing the climate crisis, including through a sustainable green transition and adaptation, is a second task, as defined in the Paris Agreement on climate change and subsequent nationally defined contributions.

Achieving climate targets entails significant investment. UNCTAD estimates, based on 48 developing countries, that the annual cost of fighting climate change, protecting biodiversity and cutting pollution from 2023 to 2030 could top $5.5 trillion annually, about 18 per cent of the collective GDP of these countries.[36] Yet climate mitigation and adaptation do not need to be an expensive drag on economic development. Managed well, they could become new levers of growth through structural transformation (productivity growth, technological upgrading, and more and better paid jobs). The many benefits of climate stabilization and environmental preservation include reducing disasters and other negative effects of global warming (UNCTAD, 2021).

Aligning development and climate goals through a successful green structural transformation should be the guiding principle in designing policies to build climate-economic resilience.

2. An integrated macroeconomic policy framework

While some see the green transition as being at odds with economic growth, both objectives reflect a common challenge: orchestrating a structural overhaul that leads to sustainable activities and more productive, better jobs. This dual challenge requires modernizing development policies and reforming industrial strategies, in particular, to create a framework aligned with the imperatives of a green future. It includes acknowledging that manufacturing may not guarantee job creation, even in developing countries (Rodrik, 2025).

For countries in the global South, an integrated policy framework is essential. It would harmonize priorities across sectors and polities, including climate, macroeconomics, structural reform, energy transition, economic cooperation and financial stability, and support a coordinated response to complex challenges. Amid multiple crises and pressures on development finance, macroeconomic policies must facilitate broader resource mobilization and green structural transformation in addition to the traditional aims of economic growth and financial stability.

> Macroeconomic policies must facilitate broader resource mobilization and green structural transformation.

[36] See UNCTAD on the costs of achieving the SDGs at https://unctad.org/sdg-costing/about.

a) Economic resilience starts with domestic resource mobilization

Developing countries require around $1.1 trillion to $1.8 trillion annually from 2025 to 2030 just for climate finance (UNCTAD, 2024c). Yet financing and investment gaps in terms of reaching the Sustainable Development Goals are already large, ranging between $2.5 trillion and $4 trillion for developing countries, a sum that has grown notably in recent years (United Nations Department of Economic and Social Affairs, 2024).

Meeting minimum investment needs requires significant domestic resource mobilization.

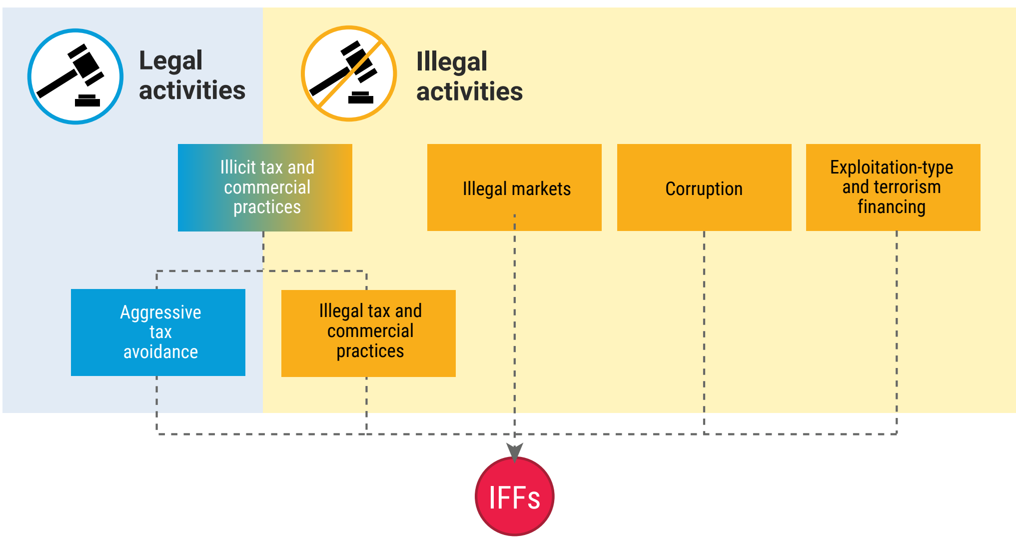
While external sources of funding remain crucial, minimum investment needs demand significant domestic resource mobilization. This includes measures to strengthen tax capacities and combat illicit financial flows.

UNCTAD has discussed policies to widen tax bases and prevent revenue losses from the global South through international tax reforms or cooperation (UNCTAD, 2019, 2020a, 2021 and 2024a). Building on these proposals, country-level efforts for mobilizing additional tax revenue and stabilizing its role in the macroeconomy can complement international tax cooperation.

Tax-to-GDP ratios primarily rely on two factors: the level of economic output and the robustness of institutions. For developing countries, beyond their structural economic issues, such as informality, narrow productive sectors or commodity dependence, there is still capacity to expand revenue (United Nations Department of Economic and Social Affairs, 2024; Benitez et al., 2023). Depending on national circumstances, policy objectives could include building capabilities and strengthening institutions; designing an integrated and medium-term revenue strategy; optimizing and diversifying the tax mix, including measures to address base erosion and profit shifting by multinational enterprises (UNCTAD, 2024a); increasing the taxation of high-net-worth individuals and wealth, and digital and cross-border services (G20, 2024).

Beyond raising revenues, there is also the need to combat illicit financial flows. While there is no internationally agreed definition of these, figure V.3 depicts a spectrum of related activities, including some legal and borderline ones such as aggressive tax avoidance.

Figure V.3
Activities that may generate illicit financial flows



Source: UNCTAD, available at https://unctad.org/statistics/illicit-financial-flows.

Illicit financial flows have multiple detrimental impacts on developing countries. They weaken domestic resource mobilization, exacerbate macroeconomic stability risks, drain public resources, deter private investment, perpetuate financial exclusion, undermine governance and fuel insecurity. Africa alone loses almost $90 billion, equivalent to 3.7 per cent of regional GDP, due to illicit financial flows (UNCTAD, 2020b).[37]

Combating illicit financial flows first and foremost demands globally coordinated actions. As a complement, several policy actions can be appropriate at the national level. These include improving statistical capabilities for collecting data and measuring illicit financial flows. The *Conceptual Framework for the Statistical Measurement of Illicit Financial Flows* offers methodological guidelines (UNODC and UNCTAD, 2020).

Second, it is important to prioritize the work of combating illicit financial flows in national macroeconomic policy frameworks, aiming to improve macroeconomic stability, including by enhancing risk-based financial integrity and management.

A third strategy is to adopt comprehensive policy measures to address trade and investment-related illicit financial flows, including those channelled through under- and mis-invoicing. High-risk sectors include trade in raw materials and agricultural products.

b) Revisiting the role of fiscal policy and central banks

Macroeconomic policies shape the context for green structural transformation. Fiscal multipliers are higher where an increasing role for public banking accompanies fiscal expansion, as this may facilitate the crowding-in of private investment (UNCTAD, 2019 and 2021). Green fiscal expansion can also generate higher employment benefits. Central banks have been adapting their operations to better reflect the financial risks related to climate change and reduce the threats of a "Minsky climate moment" (UNCTAD, 2019, 2021).

The range of policy options is wide. On the fiscal policy side, both taxation and public expenditure policy can collect revenue, influence behaviour, enhance well-being and improve governance (United Nations Department of Economic and Social Affairs, 2024). Recalibrating public expenditure policies around a green dimension, for example, through procurement or investment, could effectively help advance green structural transformation across the economy. (UNCTAD, 2023a) This avenue could be especially crucial in global South countries with less developed financial markets.

As central banks around the world adapt to the financial risks of climate change (UNCTAD, 2019, 2021 and 2024b), measures to "green" the financial system

Africa loses $90 billion, or nearly 4% of regional GDP, due to illicit financial flows.

Combatting illicit financial flows requires globally coordinated actions.

Recalibrating public expenditure policies could advance green structural transformation across the economy.

[37] See UNCTAD on measuring illicit financial flows for stronger domestic resources. Available at https://sdgpulse.unctad.org/illicit-financial-flows/.


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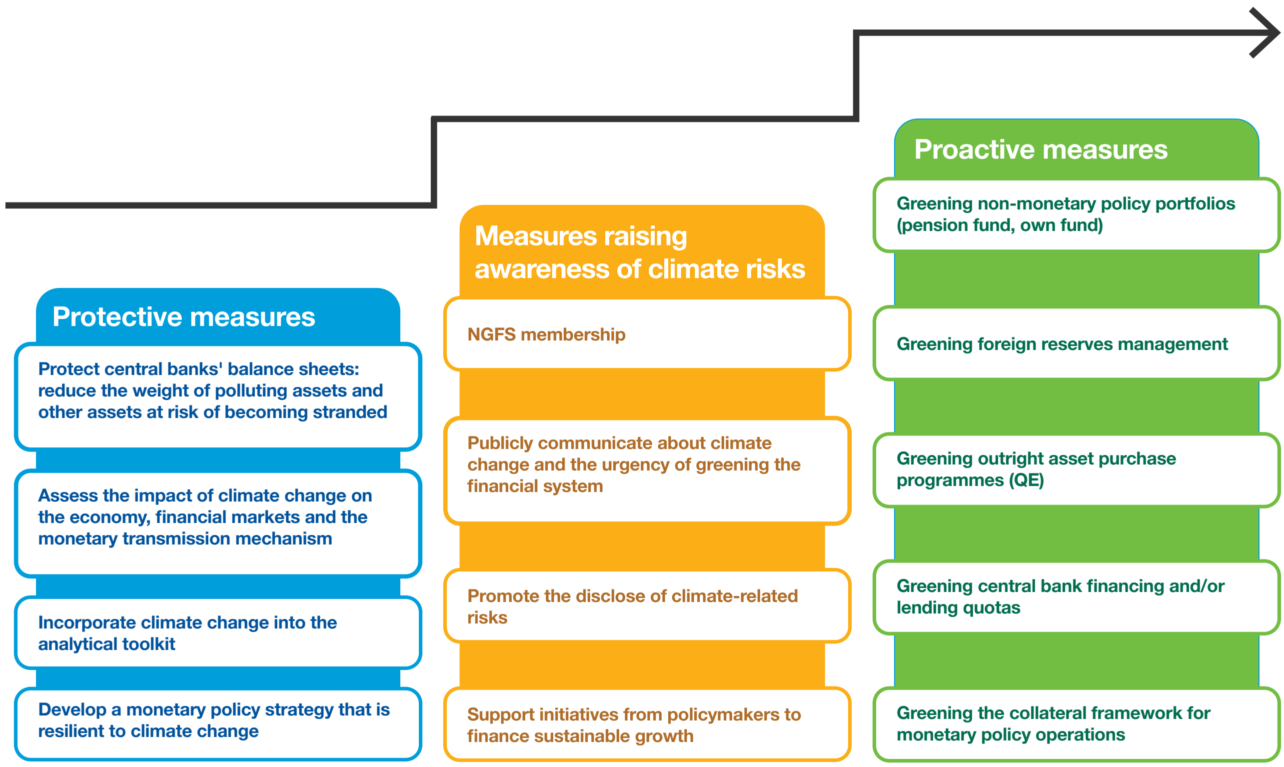
Figure V.4
Central banks have multiple means to respond to climate change



Source: Boneva et al., 2022.
Note: NGFS refers to the Network for Greening the Financial System. QE refers to quantitative easing.

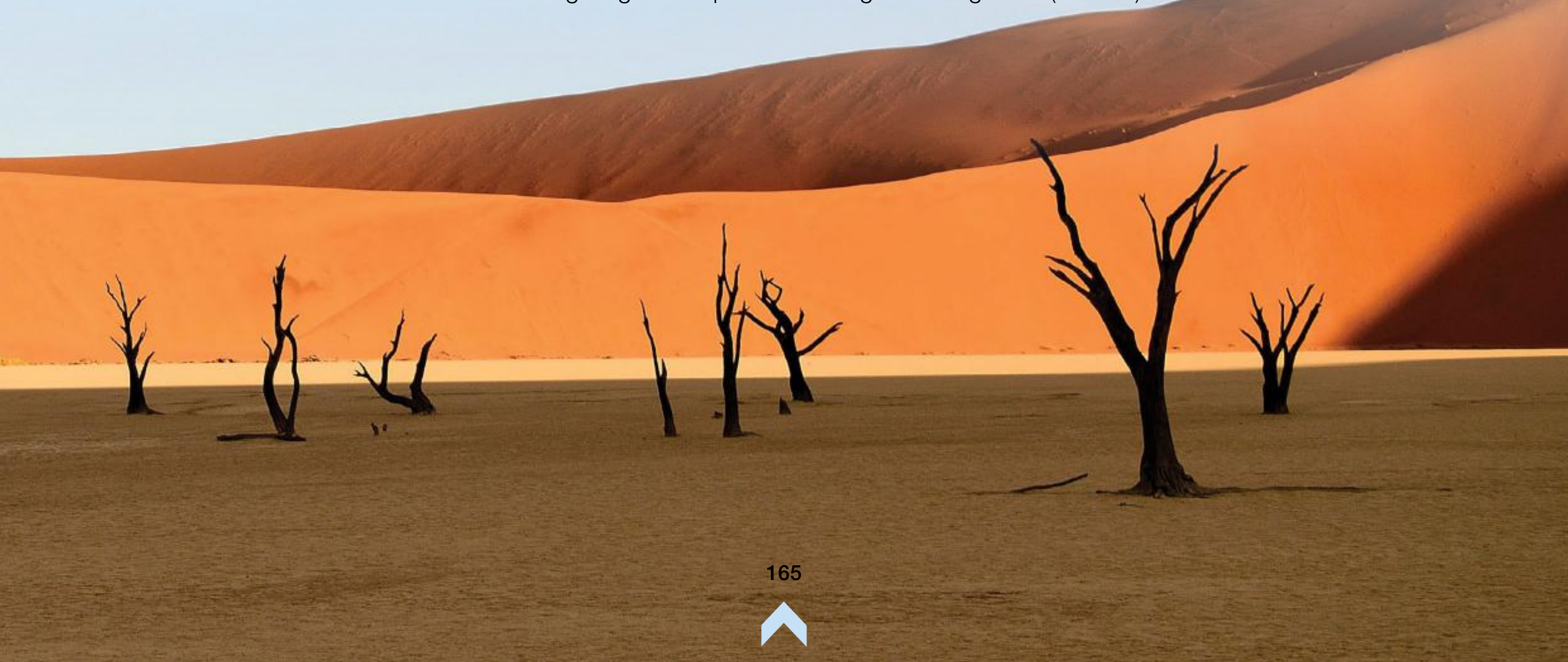
include various policy options. UNCTAD (2019) mapped out central banks' practice in supporting the green economy covering research, dissemination of policy instruments, regulations, policy instruments to safeguard financial stability, promoting structural transition to a lower carbon economy, etc. In recent years, more discussions on the role of central banks in green transition emerged. For example, according to Boneva et al. (2022), broader policy options fall into three categories: protective measures, awareness-raising measures and proactive measures (figure V.4). Comprehensive typologies also include more mandatory approaches to reallocate capital, such as credit guidance, involving direct and indirect price and quantity-based policies (table V.1) (see also Kedward et al., 2022a, 2022b, 2024).

Table V.1
Allocative green credit options run from incentives to mandatory approaches

	Banking system	Institutional capital
Indirect price-based policies	▸ Capital requirement adjustments ▸ Reserve requirement adjustments ▸ Credit guarantees ▸ Dirty-penalizing factor for G-SIBs ▸ Large exposure limits ▸ Countercyclical capital buffer	▸ Capital requirements for allocations to dirty (alternative) assets ▸ Punitive leverage ratio ▸ Collateral haircut adjustments ▸ Margin requirement adjustments
[via central bank balance sheets]	▸ Sector-targeted refinancing lines ▸ Collateral haircut adjustments ▸ Tilting in asset purchase programmes	
Direct price-based policies	▸ Interest rate floors and ceilings ▸ Subsidized credit for households/SMEs/priority sectors (e.g. through SIBs)*	
Direct quantity-based policies	▸ Portfolio restrictions: outright bans financing certain sectors/assets ▸ Credit quotas ▸ Lending ratios ▸ Large-scale public investment (e.g. through SIBs) ▸ Favourable loan-to-value/debt-to-income ratios*	▸ Portfolio restrictions: • Outright bans on financing certain sectors/alternative assets • 100 per cent repo haircuts on dirty collateral ▸ Mandatory exclusion of dirty assets from (ESG) indexes for passive investment ▸ Ineligibility of certain assets for securitization ▸ Forced sale of dirty assets to state 'bad bank'

Source: Kedward et al., 2022a.
Note: *Tools targeting demand for credit.

In general, green finance as well as fiscal and monetary policies can advance green and low-carbon transition, risk management and market pricing (UNCTAD, 2023a). Developing countries can design their fiscal and monetary strategies to facilitate green transformation. For example, China's central bank introduced two monetary policy tools in 2021: one supporting reductions on carbon emissions and a second targeting relending for clean, efficient coal use. Both tools encourage financial institutions, through a lower relending rate, to make more loans to certain sectors, such as clean energy, carbon reduction technologies and others most relevant to reaching emissions targets. In parallel, developing countries also need to adapt their integration strategies including harnessing the potential of regional integration (box V.1).



Box V.1
Harnessing the potential of regionalization

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Countries in the global South seek to enter global value chains to attract more foreign direct investment and international lending while gaining access to export markets and advanced technology and know-how. This can facilitate specialization under the guidance of the "lead firm" in the chain. Yet success is not guaranteed, particularly at the entry level and in raw materials and lower value-added segments.

Given constraints at both the national level (limited domestic markets, inadequate financing and technology) and in global value chains (participation and lock-in issues), regional approaches are increasingly seen as potential game-changers. They could support countries seeking to capitalize on new industrialization opportunities in critical sectors without the constraints of full integration into global value chains. Beyond the trade effects of regional cooperation, these strategies could be integrated within a broader, more balanced approach across key policy areas such as finance, infrastructure, industrial cooperation, technology transfer and sharing.

Regionalism has been an increasingly important dimension of integration strategies in the global South.

Regionalism has been increasingly important to integration strategies in the global South. The African Free Trade Agreement, for instance, aims to help African countries create and enter regional value chains, identifying priority sectors that include agribusiness for food security, the pharmaceutical and medical sector, automotives, and green energy and productive systems. National industrialization goals in these sectors should benefit from the agreement as it removes restrictions and facilitates the free continental movement of goods, services, labour and capital.

Another narrowly focused but equally ambitious example involves regional cooperation among members of the Association of Southeast Asian Nations (ASEAN) plus China, Japan and the Republic of Korea, aimed at expediting the uptake of renewable energy and electric vehicles. A strategy developed in 2023 seeks to create a pan-ASEAN electric vehicle value chain by pooling resources, sharing costs and coordinating production processes. It leverages the vast resources and manufacturing capabilities of 14 countries. Subsequent mechanisms to support the strategy include a plan to enhance energy security and cooperation and construct an enabling ecosystem for electric vehicles. It benefits from the proximity and involvement of the three main investment and manufacturing players in electric vehicles globally: China, Japan and the Republic of Korea, the Republic of Korea.

C. A call for networked multilateralism

In an increasingly interconnected world, national policies alone cannot address cross-border challenges. As the United Nations marks its eightieth anniversary in 2025, the moment is now to rethink and strengthen global governance, so it remains fit for purpose.[38]

1. The role of the global North remains indispensable

International agreements, such as the 2030 Agenda for Sustainable Development, the Paris Agreement and now the Sevilla Commitment on financing for development,[39] commit developed countries to supporting developing nations in realizing sustainable development. In a fragile global context requiring climate-economic resilience, several areas call for renewed policy efforts.

a) Speed up the decoupling of economic growth from high emissions and environmental degradation

Based on current projections and patterns in global greenhouse emissions, global warming will likely exceed 1.5°C during the twenty-first century and may cross 2°C if no additional actions are undertaken (IPCC, 2023). Stabilizing the climate requires a rapid phase-out of global fossil fuel extraction, trade and consumption, and a major policy shift in fossil fuel finance. Beyond the energy transition, meeting emissions mitigation targets calls for accelerating the decoupling of economic growth from environmental degradation and worsening climate threats. This largely depends on improving resource efficiency and promoting sustainable consumption and production, in line with the Sustainable Development Goals (SDG 8.4 and SDG 12).

Based on historical emissions trends, current production and consumption patterns, economic capacity and resource availability, and in line with the principles of common but differentiated responsibilities and respective capabilities, the global North needs to fulfil its commitment under the Paris Agreement to lead in setting economy-wide absolute emissions reduction targets.

b) Enhance North–South cooperation

South–South cooperation has gained traction in the last two decades with the economic rise of the global South. Yet it is not a substitute for, but rather a complement to, North–South cooperation (United Nations, 2019). The responsibilities of developed countries remain indispensable in helping developing countries to pursue climate-resilient development.

Financing, particularly official development assistance, remains at the core of North–South cooperation. Yet two worrying trends are afoot in both public and private financial flows to developing countries: declining official development assistance and worsening financial conditions.
A rapid decline stems from changing policy stances (UNCTAD, 2025a), with the OECD projecting a 9 to 17 per cent drop in 2025, on top of the 9 per cent one that already took place in 2024 (OECD, 2025).

[38] Based on a message from H.E. Ms. Annalena Baerbock, President of the eightieth United Nations General Assembly. Available at https://www.un.org/pga/80/.
[39] United Nations General Assembly resolution 79/323, available at https://docs.un.org/en/A/RES/79/323.

Beyond 2025, the outlook remains highly uncertain. By 2027, official development assistance may retreat to 2020 levels, driven downward by cuts announced by four major providers: France, Germany, the United Kingdom and the United States (OECD, 2025). This will magnify an already worrying lag in progress in reaching the Sustainable Development Goals in the global South.

In the Sevilla Commitment, United Nations Member States recognize “the urgency of undertaking sustained efforts to reverse declining trends in official development assistance and urge developed countries to scale up and fulfil their respective official development assistance commitments”. These include the longstanding official development assistance target of 0.7 per cent of gross national income.

A renewed and recalibrated North–South cooperation framework could:

Enhance transparency and planning: Sudden policy shifts in development financing aggravate development obstacles in the most vulnerable countries and fuel discontent, disrupting international cooperation and stability. Midterm funding plans between donor and recipient countries, spanning three to five years, could help avoid sudden shocks and disruptions.

Leveraging the role of official development assistance in economic growth to create dual virtuous circles. With budget constraints, it is more important than ever to uphold economic growth. Under the low growth context and transformation of export-led growth, investment in modern industrial policy (UNCTAD, 2024a) is needed to achieve sustained growth in developing countries. Official development assistance can play a catalytic role in encouraging productive investment and research and development in industrialization, green and digital economy, services sectors, and trade capacity building.

Through leveraging ODA role in supporting economic growth, developing countries could create two virtuous circles:

1. Economic-social-environmental virtuous circle: improved economic growth based on productive capacity expansion and progressive structural transformation can create more job opportunities. This, in turn, can facilitate technology development and enable larger fiscal space, to partly fill the financing gap for social development and address the climate crisis.
2. Domestic revenue mobilization-official development assistance circle. Economic growth will result in larger revenue mobilization which further reduces the reliance of the global South on external financing support, to build a virtuous circle between domestic resources mobilization and ODA.

2. Key principles for a viable networked multilateralism

In the wake of the global financial crisis, leaders of the Group of 20 in 2010 recognized that “for prosperity to be sustained it must be shared” and “narrowing the development gap and reducing poverty are integral to our broader objective of achieving strong, sustainable and balanced growth and ensuring a more robust and resilient global economy for all” (G20, 2010). Building a resilient and prosperous economy in the global South matters. The world economy needs new poles of growth to diversify global demand and investment destinations.

A cascade of crises since 2020 has not rallied political will and collective action reminiscent of the era after the global financial crisis, similar to what the G20 achieved in the London Summit (agreeing on a massive stimulus programme) or Seoul Summit (adopting Seoul Development Consensus). The past decade, most notably in recent months, has seen geopolitical tensions, trade policy shifts, rising uncertainties, disrupted supply chains and mounting costs from the climate crisis. Yet while enduring pressures challenged multilateralism even before 2020, they do not render it irrelevant. On the contrary, compounding shocks and risks of fracture underscore the urgent need for a “more networked, more inclusive, and more effective” multilateral system (United Nations, 2021), capable of adapting to new landscapes and emerging challenges, including as green development reshapes the global agenda (box V.2). In 2024, 193 Member States adopted the Pact for the Future, pledging a “new beginning in multilateralism”.

Box V.2
Greening international cooperation

Growing interest in “resilience” reflects rising concerns about the economic impacts of climate change and other non-economic shocks. In the global South, three factors in particular constrain economic resilience: insufficient financial resources, a lack of required technologies and institutional capacity gaps.

Under the United Nations Framework Convention on Climate Change, new financing and technology cooperation mechanisms have emerged to address these issues. A recent example is the New Collective Quantified Goal for climate finance agreed in 2024. It calls on developed countries to mobilize at least $300 billion per year for developing countries, with an aspirational goal of $1.3 trillion annually by 2035 from all sources.

The impact on broader economic cooperation and integration is also evident beyond climate discussion. UNCTAD (2023c, 2025c) argued that strategic use of trade tools can help align economic development with climate goals, unlock new markets, and drive the transition to a low-carbon, sustainable future. For example, within the WTO, the Trade and Environmental Sustainability Structured Discussion has seen active engagement since 2020.

Regionally, more concrete initiatives have emerged. The Asia-Pacific Economic Cooperation (APEC) forum has been a pioneer. In 2012, APEC leaders endorsed the APEC List of Environmental Goods (including 54 products at the six-digit HS code level), with a commitment to reduce applied tariff rates to 5 per cent or less by the end of 2015. The intention was to improve access to environmental technologies and contribute to green growth and trade liberalization objectives. Further to the APEC list, Australia and Singapore signed a broader Green Economy Agreement that identifies seven key areas of cooperation.[a]

The most recent regional example involves South–South cooperation between China and ASEAN. An upgraded free trade agreement signed in October 2025 features a specific chapter on the green economy.[b]

[a] Available at https://www.dfat.gov.au/geo/singapore/singapore-australia-green-economy-agreement.

[b] Available at https://fta.mofcom.gov.cn/china_dongmeng_upgrade/annex/yds3_fl10_cn.pdf.

This report proposes three guiding principles for policy actions to help build a viable networked multilateralism: inclusivity and a development orientation, constructiveness and synergies, and pragmatism and relevance.

a) Inclusivity and development orientation

Development deficits remain unaddressed across multilateral economic mechanisms related to finance, monetary policy, trade, foreign direct investment, debt, etc. Recent policy uncertainties have exacerbated existing disparities among nations. Multilateralism should address these issues through bold reforms focused on international trade and financial systems.

- Development should move to the centre of WTO reforms, including new trade negotiations (chapter II). The clarity and enforceability of the Special and Differentiated Treatment provisions need to be enhanced, coupled with

Table V.2
Linking climate and economic policies under the New Collective Quantified Goal

Issue	Decision text	Scope
Reforming the financial architecture	Paragraphs 4 and 6	Paragraph 4 recognizes the existence of enablers for climate action, stating that sufficient capital to address climate action exists but is hindered by barriers. Paragraph 6, rooted in the 2023 Global Stocktake decision, emphasizes the need to reform multilateral financial system to remove barriers for developing countries (called “disenablers”), such as high capital costs, limited fiscal space, unsustainable debt levels, high transaction costs and conditionalities.
Debt sustainability	Paragraphs 6, 23 and 27	Throughout, the text recognizes that unsustainable debt is a “disenabler” of climate action (paragraph 6). Therefore, efforts should be made to provide financing in the form of non-debt-inducing instruments (paragraphs 23.a and 27).
Fiscal space	Paragraphs 6, 14, 15 and 27	Fiscal space is listed among the enablers of climate actions in developing countries (paragraphs 6, 15 and 27). Paragraph 14 acknowledges the fiscal limitations of developing countries. Paragraph 27 establishes the roadmap and mandates it to scale up climate finance through a series of instruments, including “measures to create fiscal space”.
Public development banks	Paragraph 12	Paragraph 12 emphasizes the responsibility of countries as shareholders of multilateral development banks to make these institutions more effective in addressing global challenges, including poverty eradication, and maximizing impact in developing countries.
Adaptation and loss and damage	Paragraphs 14, 17 and 27	Paragraph 14 stresses the need for public concessional and grant-based financial resources for adaptation and loss and damage, specifically for least developed countries and small island developing States. It marks the first recognition in a finance-related decision of the need for grant-based finance for loss and damage, with an emphasis in paragraph 19 (Pettinotti et al., 2025). Paragraph 17 reaffirms the importance of achieving a balance between adaptation and mitigation finance, in particular, through a dramatic scale up of adaptation finance (paragraph 18).
Reducing the cost of capital	Paragraph 15	Paragraph 15 stresses the importance of reducing the cost of capital and boosting the ratio of public finance mobilized by 2030, while creating fiscal space in developing countries using innovative instruments and sources of finance.
Climate funds	Paragraph 16	Paragraph 16 recognizes the need for increasing public resources through the operating entities of the Financial Mechanism, Adaptation Fund, Least Developed Countries Fund and Special Climate Change Fund, and to at least triple annual outflows from these funds. This is one of the few measurable commitments in the new goal.
Access to climate finance	Paragraph 21	Paragraph 21 underscores the need to remove barriers to accessing climate finance, such as “high capital costs, co-financing requirements and burdensome application processes”, and urges further efforts to improve the fragmented climate finance access for developing countries, particularly for least developed countries and small island developing States. It directly addresses “systemic inequities”.
Alignment of international financial institutions	Paragraph 23	Paragraph 23 invites international financial institutions, including multilateral development banks, to align their operations and instruments to “be fit for purpose” to effectively address global climate change, development and poverty, in line with their mandates and through non-debt-inducing instruments (paragraph 23.a).

Source: UNCTAD (2025). *All Roads Lead to Reform: A Financial System Fit to Mobilize $1.3 Trillion for Climate Finance.*

the continuation of enabling rules and non-reciprocal preferences for developing members. The recent announcement by China that it is "not seeking new special and differential treatment" (China, 2025) was seen as "a pivotal moment for the WTO".[40]

- The reform of the international financial architecture that began after the global financial crisis should continue, towards increasing the voice and role of the global South. It should address disparities in quotas and votes, increase representation in governance structures, diversify the special drawing rights basket and expand lending capacity to facilitate resilient development. Such reform is closely linked to climate finance. The New Collective Quantified Goal offers the most concrete manifestation to date of linking climate and economic policy regimes, including several elements that can steer reforms in coming years (table V.2) (UNCTAD, 2025b).

b) Constructiveness and synergie

As globalization decentralizes and new regional powers emerge (UNCTAD, 2023a), the global economic governance framework is getting more complex. It now includes the United Nations system, Group of 20, BRICS, Group of Seven, WTO, international financial institutions, OECD and various regional arrangements. Policy misalignments stemming from divergent priorities and memberships, however, undermine support for resilient development in the global South. In terms of an international taxation agreement, for example, some OECD members oppose a United Nations-led framework (UNCTAD, 2024a).

All countries should make joint efforts to foster regular, inclusive dialogues, bridging the United Nations and other platforms, to better serve development goals. A reinvigorated network of multilateral institutions and frameworks could fill governance and agenda gaps among various mechanisms to create greater coherence, synergies and build broader consensus. It could assist the global South in achieving the Sustainable Development Goals and enhancing resilience, and help de-escalate geopolitical and geoeconomic tensions while promoting North–South cooperation.

c) Pragmatism and relevance

Several structural challenges in the global South have become more urgent recently, such as the vicious cycle of climate and debt, the misalignment of diversified trade and centralized finance, and food insecurity amid increasingly concentrated markets. Multilateral networks can offer the best and most pragmatic approaches to addressing these concerns.

- **Climate-debt nexus**: Beyond national efforts to realize green structural transformation, addressing unsustainable debt in vulnerable developing countries, where fragility is partly due to climate change, requires reforms of the global financial architecture and international development cooperation. In addition to proposals for renewing official development assistance (ODA) and reforming the international financial architecture, a transformative increase in the quantity and quality of climate finance is essential. It is achievable only through concerted efforts by all Member States and international financial institutions. A new proposal for a borrowers' forum offers a novel approach to debt challenges (box V.3).

A transformative increase in the quantity and quality of climate finance is essential.

[40] See the statement by WTO Director General Ngozi Okonjo-Iweala. Available at https://www.wto.org/english/news_e/news25_e/dgno_24sep25-b_e.htm.

Box V.3
Proposal for Borrowers' Platform

The Sevilla Commitment, agreed at the 2025 Fourth International Conference on Financing for Development, announces the intention to "establish a platform for borrower countries with support from existing institutions, and a UN entity serving as its secretariat". Such a platform would address a long-standing gap in the international debt and financial architecture. Bilateral creditors coordinate their efforts through the Paris Club and other forums. But borrower countries of the global South lack a similar recognized institutional space. Having such a forum could encourage discussion of technical issues and the sharing of information and experiences related to debt challenges.

Members of the platform should decide on its mandates. These could include establishing a knowledge repository to facilitate South–South peer learning on debt-related issues; promoting the adoption of responsible sovereign borrowing and lending practices; strengthening borrower perspectives in negotiations to reform the international financial and debt architecture; creating a technical assistance hub to promote innovative financial instruments; and enhancing debt transparency and debt management practices through partnerships and mechanisms including the UNCTAD Debt Management and Financial Analysis System programme.

UNCTAD has convened and hosted several meetings of developing borrower countries where a growing number of country representatives shared debt challenges and solutions. They indicated a pronounced need for a permanent rather than ad hoc structure. Discussions covered debt restructuring, fiscal consolidation, boosting local capital markets, enhancing transparency, credit instruments, legal frameworks, investor communication, revenue mobilization, and innovative tools like debt swaps. Based on this experience, UNCTAD has been proposed as the secretariat of a borrowers' forum, supported by the United Nations system as required.

- **Trade–finance divide**: As chapter IV indicates, advancing the financial integration of the global South is a complex challenge. Regional financial arrangements can serve as a starting point for lowering the costs of borrowing, facilitating capital formation, supporting investment and advancing the energy transition (UNCTAD, 2015 and 2022). Building financial infrastructure and regional capital markets, with support from the multilateral development banks, should proceed in parallel with trade integration. Essential elements include regional funds to tackle short-term balance-of-payments gaps; regional payment systems to reduce exposure to the global financial cycle and support intraregional trade; and coordinated exchange rate policies to prevent beggar-thy-neighbour macroeconomic practices.

- **Risks in shadow banking:** The post-2008 reforms of the financial system focused on sources of systemic risks in banking, introducing measures to enhance disclosure requirements and reporting transparency; stress-testing for specific vulnerabilities and exposures; designing new tools for macroprudential supervision; and adapting economic models from linear projections to scenarios with complex trade-offs (Awrey and Judge, 2020). The reform has generated endogenous developments that carry their own new risks, however (chapter III). Available tools should be monitored and discussed in the context of building resilience beyond the banking system.

Regulations of systemic risk in finance can be adapted to test resilience in other economic sectors.

D. Conclusion

The strategies outlined here seek to build resilience across the diverse countries of the global South amid ongoing structural challenges, including climate change. No single blueprint will suit all developing economies. For that reason, this report does not prescribe specific policies. Instead, it highlights directions to guide their formulation. It underscores that prosperity must be shared, and towards that end, multilateralism is more vital than ever to address persistent development gaps.

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