Financing for Development (FfD4) Preparatory Committee Meeting:
Identifying Systemic and Systematic Risks of Not Allocating Adequately Priced Capital to Emerging Markets and Developing Economies

Background and context

The Financing for Development Addis Ababa Action Agenda calls for increased private finance, debt sustainability, and an enhanced focus on addressing systemic issues and financial stability to support economic growth in Emerging Markets and Developing Economies (EMDEs). However, barriers to adequately priced capital for EMDEs remain high.

This session explored the proposition that, in order to incentivize sustainable investment in EMDEs at scale, investors need to understand the systemic and/or systematic risks of not allocating such capital. Significant research has been conducted on the overlooked opportunity of investing in these markets. However, according to dominant market interpretations of risk, investors typically believe they can achieve comparable or stronger returns in developed markets with less risk than EMDEs.

Reasons for why the perceived risks of these markets may be greater than actual risks have been well-documented. However, in addition to this argument, if EMDEs do not have sufficient capital at a manageable price to invest in their own development, these regions could face deterioration that will destabilize global markets and therefore pose threats to diversified investors' portfolios. For instance, due to a lack of access to reasonably priced capital, EMDEs may face physical climate risk that jeopardizes global supply chains and catalyzes widespread inflation, as well as mass migration that destabilizes developed market economies, and therefore investors' diversified portfolios.

A robust research agenda to discover these impact pathways and transmission channels of financial risk to portfolios is needed to incentivize change. This research includes development of new financial analysis tools and methodologies to capture this risk in investment decision making. A key element of this discussion will be co-creating an agenda and program to produce such research and tools that supports items highlighted in the Addis Ababa Action Agenda.

Questions to explore include:

1. What are gaps in existing research and who can help fill them?
2. Who should the research seek to inform and how?
3. How should the research be socialized to promote actionable change?

4. What role can the FfD4 play in advancing this understanding?

This proposal aligns with the Pact for the Future, which aims to encourage private sector contributions to global challenges while strengthening accountability within United Nations frameworks. By addressing the gaps in financial risk analysis and fostering clarity on the responsibilities of financial institutions and real economy companies, this effort supports the ambition of the FfD4 Elements Paper. It underscores the importance of UN and Member State consensus on principles to define these responsibilities, ensuring private sector accountability and the sustainable development of EMDEs.

Taking place in Seville, Spain in June 2025 the FfD4 conference will address new and emerging issues and the urgent need to fully implement the Sustainable Development Goals, and support reform of the international financial architecture. The conference is coordinated by the Financing for Development Office of the United Nations Department of Economic and Social Affairs.

Welcome remarks

Marcos Mancini, Head of Sustainable Finance Policy at the United Nations Development Programme (UNDP) Sustainable Finance Hub, explained that the relevance of this session stems from the need to better understand the potential systematic risks and overlooked opportunities of not allocating more adequately priced capital to EMDEs. The goal is to explore how investors can adopt forward-looking approaches to risk analysis and integrate more sustainable and equitable financial practices.

Another objective is to identify the research agenda that FfD4 requires to mandate and reassert to different agencies in order to look at this important issue that civil society and other member states want to put forward.

Delilah Rothenberg, Co-Founder and Executive Director of the Predistribution Initiative (PDI) complemented Marcos's remarks by stating the need to assess what type of research and methodologies need to be developed to support a better understanding of these risks, a goal that aligns with the FfD4 Elements Paper and the Addis Ababa Action Agenda.

The importance of understanding systemic and systematic risks for society, financial stability and investors

Ruth Richardson, Executive Director of the Accelerator for Systemic Risks Assessment at the United Nations Foundation (ASRA), introduced ASRA as a new initiative that hosts transdisciplinary experts and thought leaders who want to see systemic risk assessment as the backbone of policy and decision making. It aims to radically rethink risk as a way to address current and future crises.

The world is currently living a moment of immense complexity where systemic risks are accelerating rapidly, from climate change to pandemics, to global challenges and financial stability. Since the stakes are incredibly high, this moment holds tremendous potential and urgency to come together, innovate, and act on our collective intelligence and wisdom.

ASRA defines systemic risk as “the potential for multiple, increasingly severe, abrupt, differentiated, yet interconnected, and potentially long-lasting complex impacts on coupled natural and human systems”. Understanding systemic risks can lead to better informed decisions, more effective responses, and greater adaptive capacity.

Aligned with the FfD4 research agenda, ASRA proposes that financial institutions include the consideration of systemic risks in investing, lending and procurement to understand and make visible the full cost and consequences of their activities. It also suggests that financial regulators and central banks should use similar methods to assess a wide range of risks, including conducting stress tests to evaluate capital adequacy and liquidity, and to identify critical points of intervention.

Essentially, meeting the polycrisis with the solutions we need requires us to direct capital in significant systemic and novel ways. These significant, systemic and novel ways are not agnostic; they are not value neutral. They need to have at their core principles and values that provide direction such as universal responsibility to natural systems and species, human rights, justice and equity.

In terms of research, ASRA proposes to foster a renaissance in research and education in systemic risks and rapidly upscale for a polycrisis world. Researchers must prioritize an enhanced transdisciplinary research and training, developing competencies, tools and standards for integrating different types of relevant knowledge and diverse evidence, such as indigenous and community knowledge. These efforts must also proactively identify evidence and data blind spots in areas of bias.

Costanza Consolandi, Professor at the Universitá degli Studi di Siena (UNISI) and Board Director of the Externalities Investment Research Network (EIRN) started her intervention by introducing Modern Portfolio Theory (MPT) as part of an investment analysis approach, especially in EMDEs. MPT considers systemic risk as an external element that cannot be avoided or diversified. Therefore, she proposed that any research agenda should go beyond what MPT states in order to consider all the impacts and externalities that are related to the insufficient allocation of capital to EMDEs and translate that into the language of financial investments.

We must be aware that social externalities related to the inefficient allocation of capital are regularly the ones that affect the most to EMDEs, rather than the environmental ones, however the measurement part for social characteristics is always more difficult. Thus, policy implementation in EMDEs, especially related to funding, should also consider social matters like welfare and inequality in order to achieve successful outcomes.

Delilah Rothenberg shared the Predistribution Initiative’s assessment of this issue and proposing what can be done to overcome it. The goal is to set a foundation to start thinking who should be involved, how do we promote this among member states and what specific work needs to be done on the research agenda.

Delilah introduced the concept of Universal Ownership, which is the idea that there are very large investors which are diversified across different asset classes, geographies, and industries. Since they are so diversified, they cannot diversify away systemic risks, like inequality, climate change and biodiversity loss. This has made investors realize they should not only look for idiosyncratic risks and returns of each individual investment of their portfolio but also be aware and consider externalities caused in the entire system by their own investments. That is, look for positive and negative impacts that companies and investors might have on the economy overall.

Since diversified portfolios are ultimately dependent on the health of the financial system and the financial system depends on the health of the economy, which is also dependent on human and natural systems, at least in the long run, companies and investors must consider the sources of externalities that might affect their performance. Among such sources of externalities are climate change, market concentration, lack of capital allocation to Small and Medium Enterprises (SMEs) and diverse emerging fund managers, as well as insufficient and not adequately priced capital allocated to undercapitalized regions, such as EMDEs.

There is a myriad of system risks of not allocating adequately priced capital to EMDEs which need to be identified using a multidisciplinary approach to map them. Allocators do not have the information and tools they need to identify some of these systemic risks and to understand the corresponding impact pathways which could affect their portfolios. If we are able to identify key transmission channels of risk and develop methodologies to systematically risk-adjust financial returns of diversified investors' portfolios, then we might be able to shift the risk-return analysis of different investment opportunities which in turn could change the way in which investors price and structure capital.

In order to effectively produce the needed FfD4 research agenda, it is imperative to collaborate with multidisciplinary experts such as environmental and social scientists, business and finance professionals, economists, credit ratings agencies, academic institutions and international bodies such as the Financial Stability Board, the International Monetary Fund, the World Bank, among others. Delilah opened the floor to participants by encouraging them to share their reasons of interest for this topic and any reactions to the session's remarks.

Participants interest in the session's topic

- Alexandra Rogan, Council for Inclusive Capitalism: The engagement with asset owners and asset managers, as well as the political risks in EMDEs.
- Luis Bernal, UNDP: The implications of systemic risks for EMDEs as well as financial stability.
- Paul O'Brien, Board Member of the Wyoming Retirement System: Currency risk as a systemic risk that EMDEs are exposed to.
- Kim Shafer, Advisor of JUST Capital: The role of credit ratings agencies as part of this topic.

- Salvatore Serravalle, E3G: To find ways and means to unlock private capital to EMDEs by improving regulations and reform credit ratings agencies methodologies of risk assessment.
- Jonathan Harris, Center for Sustainable Finance and Private Wealth: Total Portfolio Approach and alternative types of investments as part of the systemic and systematic risk evaluation.
- Natalie Nicholles, Capitals Coalition: How to put a value to these systemic risks in order to be part of the investment decision making processes. Time horizons should be a topic to be aware of, specifically referring to climate risks.
- Willard Mapulanga, African Climate Foundation: How to best address systemic risks to affect EMDEs the most and to acknowledge the resilience that features these markets in the light of the financial fragmentations that exist in the International Financial Architecture.
- Jim Hawley, Externalities Investment Research Network (EIRN): Universal Ownership and externalities affecting EMDEs.
- Paul Rissman, Rights CoLab: Systemic risk-adjusted returns, especially related to inequality.
- Nnamdi Igbokwe, Convergence Blended Finance: Difference between perceived and actual systemic risks as well as the standardization of risk data and its availability for investment decision making processes.
- Franklin Steves, E3G: International Financial Architecture reform by leveraging research for this topic.
- Joanne Bauer, Rights CoLab: Business and human rights standards to be considered in companies' risk assessments.
- Indy Johar, Dark Matter Labs: The capacity and interest from investors to invest to decrease these systemic risks.
- Costanza Consolandi: Not only are credit ratings agencies important to consider systemic risk assessments but also ESG ratings agencies.
- Ruth Richardson: There is a lot of work to build on externalities and systemic risk frameworks. It is also critical to consider and include in this research agenda those stakeholders directly impacted by these externalities.

Concluding remarks

As part of the information to be included in the FfD4 PrepCom report and the documents to be negotiated by member states, Marcos Mancini acknowledged the interest from the session's participants to recognize the potential transmission mechanisms of the polycrisis and the international financial system. For this, there should be both an action agenda and a research agenda as part of the FfD4 mandate to involve different agencies and stakeholders.

Finally, Delilah Rothenberg mentioned as next step the identification of potential mandates that could be given to various agencies to prepare for the next PrepCom meeting, and the draft of a concept note on the alignment with the FfD4 Elements Paper and the Addis Ababa Actions Agenda to further come up with a targeted research agenda.