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New impetus for Agenda 2030 – Why a fourth International Conference on Financing for Development is overdue

Bodo Ellmers

As Agenda 2030 passes its mid-way point, ambitious reforms will be required during its second phase if the Sustainable Development Goals (SDGs) are still to be achieved. A lack of financial resources is one of the main reasons why their implementation has fallen so far behind. The UN's latest Financing for Sustainable Development Report has identified the "financial divide", i.e. the lack of access to funds at favourable interest rates for countries of the Global South, as a key problem. It means that affluent countries have recovered comparatively quickly from the shock of the coronavirus crisis and are able to invest in sustainable development, whereas many low-income countries are now trailing even further behind.

The UN has therefore established a series of negotiating formats with a view to generating fresh political momentum. The series will start in 2023 with the SDG Summit and the Summit of the Future and end with the World Social Summit in 2025. However, there is little point in talking about political objectives if the means to achieve them are largely lacking. There is, therefore, growing pressure to convene a new International Conference on Financing for Development to complement the formats already mentioned. This would be the fourth of its kind, after preceding events in Monterrey (2002), Doha (2008) and Addis Ababa (2015). The UN General Assembly is due to negotiate a mandate for the conference in October this year (2022).

The urgency is beyond question, not only because more funds must be mobilised for the agreed development goals. A multilateral response must also be found to the multiple crises that disproportionately affect the countries of the Global South. Their recovery from the coronavirus crisis was barely under way when they were struck by two further shocks.

The first is the interest rate shock triggered by the US central bank's raising of key interest rates in spring. This has led to capital outflows from developing countries and increased the overall cost of investing in sustainable development. Faced with the burden of rising interest rates, many countries are at risk of collapse as a result of debt crises. The second shock comes from the impacts of the war in Ukraine, with massive food and energy price hikes which the net importing countries in the Global South, at least, are powerless to absorb.

The first International Conference on Financing for Development 20 years ago was itself a response to the financial crises in Asia and Latin America and aimed to create an international financial and trade architecture that was conducive to development. In light of the new generation of crises, this challenge is now more urgent than ever.

The UN Financing for Development process

The Financing for Development (FfD) process at the United Nations is regarded as the most significant multilateral political process dealing with international finance policy in the development context. One of its particular features is that although the lead coordinator is the United Nations, the international financial institutions, i.e. the World Bank and the International Monetary Fund (IMF), alongside the World Trade Organization (WTO), are institutional stakeholders with equal status. The process thus combines the legitimacy and inclusivity of the United Nations with the executive power of the IMF, World Bank and WTO.

The agenda for the process is complex: here, financing for development is not only understood as official development assistance (ODA) in a narrow sense. It deals with all sources of finance that may be accessed for development. They include:

- mobilisation of developing countries' domestic resources, particularly tax revenues,
- mobilisation of private investment, with stronger alignment towards sustainable development,
- external economic aspects, such as increasing export revenue and labour migrants' remittances,
- debt relief, which can free up scarce public funds

The process also addresses the reform of international institutions and governance regimes. This is a key prerequisite for mobilising adequate financial resources and enabling them to be deployed in line with the needs of the countries of the Global South. Indeed, many developing countries have been particularly supportive of the FfD process because it is easier for them to discuss the necessary reforms of the IMF and the World Bank within the UN framework than in these institutions' own management bodies.

As political agreements, the outcome documents of the FfD conferences have generated significant impetus. The relevance of the FfD process is apparent from the fact that in the run-up to the three summits in 2015, the G77 (the group of developing countries and emerging economies in the United Nations) insisted that the Conference on Financing for Development should take place before the sustainability and climate summits. Their argument, which is difficult to refute, was that the goals to be achieved by the international community are directly dependent on the resources that it is willing to mobilise. Since then, the elements of the Addis Ababa Action Agenda have been seen as a key mechanism for implementing not only Agenda 2030 and the SDGs but also the Paris Agreement.

However, the outcomes of the 2015 conference failed to meet expectations and attracted criticism, particularly from civil society organisations. Institutional innovations such as the upgrading of the UN Tax Committee and the creation of a multilateral state insolvency regime were already on the agenda by then and received broad support from the G77 and civil society, but failed to achieve the necessary consensus. For many critics, the shortfalls in SDG implementation are a logical consequence of the fact that from the outset, no implementation mechanisms were created that matched the level of ambition set in Agenda 2030. This applies particularly to financing.

A further problem with the FfD process is that while the agreements reflect a high level of political commitment, they are largely unenforceable. They are not binding under international law, and there is neither a systematic monitoring process that would disclose each country's progress on implementing individual agreements, nor any sanction mechanisms. Accordingly, numerous agreements reached at the last three summits have yet to be actioned. One example is the call for all countries to adopt effective legislation against aggressive hedge funds that sabotage solutions to debt crises.

Since the Addis Ababa summit, annual Forums on Financing for Development have been held under the auspices of the United Nations Economic and Social Council (ECOSOC). These Forums are intended to sustain the political momentum between summits. However, they have never achieved a high degree of political relevance. While a two-day Ministerial Segment is formally part of the format, the number of ministers who actually attend can be counted on the fingers of one hand. None of these FfD Forums has ever managed to generate the political impetus needed to ensure the implementation of the Addis Ababa Action Agenda.

One of the main reasons is that when it comes to financial matters, the UN process faces stiff competition. The UN has a quasi-monopoly in policy fields such as climate and security, but where finance is concerned, it has to compete with forums such as the G7 and G20, as well as with the decision-making bodies of the IMF, World Bank, OECD and WTO on certain sectoral issues. What's more, the FfD Forums mainly have a retrospective mandate to "review und follow up" and are less concerned with addressing current issues and future-focused topics. For that, a new International Conference would have to be convened.

Towards a fourth UN Conference on Financing for Development

A fourth International Conference on Financing for Development (FfD4) is long overdue. The Addis Ababa Action Agenda itself proposed the preparation of a follow-up conference from 2019. Since then, the issue has arisen at every FfD Forum, but a decision has been repeatedly postponed. There was no possibility of holding the conference in 2020 or 2021 due to the pandemic restrictions.

Ahead of this year's Forum, 2024 was suggested as a date for the FfD4 conference, but was not mentioned in the final version of the outcome document. Instead, the UN General Assembly was mandated to address the issue; this is likely to happen in October this year. A further question to be clarified, in this context, is where FfD4 should take place; so far, no country has declared itself willing to host the event.

A long time has passed since FfD3 and conditions have radically changed, so fundamental solutions must be reached as a matter of urgency. An early date for FfD4 is therefore being demanded, especially by non-governmental organisations. The privileged countries in the international community had unlimited access to capital markets even at the height of the coronavirus crisis and were thus able to fund large-scale economic stimulus programmes and generous social benefits. They must now support the countries of the Global South in establishing a pro-development financial architecture.

Tasks for FfD4

There is, by now, a wide range of tasks that the FfD4 should address. They can be broadly encapsulated in the following three points:

1. Update the system of financing for development

Since 2015, a number of new developments have occurred, which the international architecture must reflect if it is to remain relevant. A considerable need for innovation has built up, and this would need to be addressed within an up-to-date international framework. In the Global South, for example, we are experiencing an entirely new type of debt crisis, with credit instruments such as government bonds and new bilateral creditors like China playing a more significant role than during the previous wave of crises in the 1990s. The international financial architecture still lacks multilateral institutions, including a state insolvency regime, capable of solving crises such as these.

In addition, the events of recent years have shown that crises are the new normal and that frequent shocks must be factored into the planning of development financing. It is therefore essential to devise financial instruments and institutions that are crisis-resilient and increase countries' resilience capacities, respectively.

The pandemic and increasingly frequent natural disasters have also shown that financial assistance generally arrives too late and involves too many bureaucratic obstacles. Financial mechanisms are required to provide rapid, needs-based funding to countries and communities affected by shocks, without adding to their debt burden.

Since 2015, digitalisation has made great advances. Cryptocurrencies and other aspects of digitalisation did not yet play a role in Addis Ababa. Today, they offer opportunities for financial integration and efficiency, but they also pose risks to financial stability and can encourage money laundering. The development of a multilateral regime for their regulation should be progressed as a matter of urgency.

And lastly, reconstruction is back on the agenda. Since the invasion of Ukraine, the West is giving more thought to how reconstruction can be funded and by whom. From a global perspective, Ukraine is just one case among many. Where reconstruction is concerned, there is a gap in the institutional architecture, and this is one reason why development in affected countries continues to be undermined by conflict impacts for decades afterwards. Although the World Bank was initially established as a bank for reconstruction, it now functions primarily as a development bank. There is now a lack of effective institutions in this field.

2. Harmonise the goals of Agenda 2030 and implementing mechanisms

If the opportunity to achieve the SDGs is to be utilised, a thorough review of implementation mechanisms must be undertaken as Agenda 2030 reaches its half-way mark, with FfD being perhaps the most important. Based on the findings of this review, the necessary reforms must be agreed and actioned.

However, even without a review, it is clear that since the early days of Agenda 2030, a shortfall in SDG funding has existed, initially estimated by UNCTAD and others at USD 2.5 trillion a year. Since then, the gap has not closed; on the contrary, due to the pandemic and backlog in the implementation process, the figure has risen to more than USD 4 trillion annually. More action must therefore be taken to mobilise additional funds – both domestic resources and external financing. Existing private and public resources must be coordinated globally and aligned more strongly with the funding needs arising from Agenda 2030.

Furthermore, developing countries must be able to generate sufficient tax revenue. This requires effective measures to combat cross-border tax avoidance and harmful tax competition, as well as fairer distribution of taxing rights. A comprehensive UN Tax Convention that would address these problems has been under discussion for some years. The political process is in its early stages, but could be facilitated by FfD4.

As a complementary measure, the quality and quantity of external financing must be improved. The donor community is still only achieving half the 0.7% ODA target. Due to the current geopolitical tensions, allocation based on SDG criteria is currently regressing rather than progressing. Multilateral development banks are not utilising their lending potential in quantitative terms, and their project portfolio is only partially compatible with the SDGs. Innovative financial mechanisms, such as the issuing of special drawing rights by the IMF, were used on an ad hoc basis during the pandemic but have not yet been placed systematically in the service of development financing.

All these aspects could potentially be included on the agenda for FfD4. They will undoubtedly require far-reaching reforms and innovation in both the international financial architecture and the policies pursued by the individual UN member states. Commitment at the highest political level is therefore essential.

3. Generate political relevance

The third aspect, then, is quite straightforward: a negotiating format must be created at the highest political level so that substantive decisions can be taken. As with the previous conferences, the heads of state and government would be invited to attend FfD4, thereby giving the format incomparably more weight than the annual FfD Forums. The experience gained with the G7 and G20 processes shows that the summits themselves attract far more attention than the meetings of ministers. Civil society, in turn, can only apply political pressure if there is sufficient interest from the public.

In comparison to the G7 or G20 summits, the distinct advantage of FfD4 is that the "G193", i.e. the heads of state and government of all 193 United Nations member states, are invited to attend. This makes the FfD4 format far more inclusive and legitimate than the G-summits. It is also the only format in which it will be possible to progress the now urgently needed reforms with global reach and universal acceptance.

Author

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