May 2023

Financing for Development Forum 2023

United Nations score success

by Bodo Ellmers

The United Nations Financing for Development Forum 2023, which was recently held over four days in New York, was dominated by multiple crises. Setbacks to the 2030 Agenda have increased political pressure to make substantial progress on financing for development. The chapters in the outcome document on taxation and debt issues were particularly vigorously negotiated. African countries in particular want to further strengthen the UN's work on taxation. With the escalating debt crisis, it is also becoming more important to create effective crisis management institutions that are accessible to all countries.

The increased participation in the Financing for Development (FfD) Forum compared to previous years demonstrates the global community's growing interest in this area of the UN's work. More than 30 member states were represented at the ministerial level this year. The number of side events has also seen a steady increase. Geopolitical tensions have had an influence on negotiations at the FfD Forum. However, in contrast to recent G20 and International Monetary Fund (IMF) meetings, the FfD Forum succeeded in adopting an outcome document by consensus that exceeds those from previous years in terms of substance. It turns out that the relatively strong position of the non-aligned "Third World" countries in the UN governance system helps to bind the rival blocs to the negotiating table. This means that the UN has gained more relevance and capacity to act in the area of financial policy. This raises expectations for the Fourth International Conference on Financing for Development (FfD4) to be held in 2025.

Growing challenges for development finance

The multiple crises threaten to undo the development successes of the past decades. The UN Development Programme (UNDP) Human Development Index has now declined for two consecutive years. Implementation of the 2030 Agenda is also being undermined. There has been stagnation or even regression on most of the Sustainable Development Goals (SDGs). Extreme poverty is on the rise again, and inequality is increasing.

Financing problems have always been a barrier to development for the Global South. It is not only the absolute lack of funding, but also the significantly worse financing conditions compared to the Global North that inhibit development processes. The "Great Finance Divide", as the Inter-Agency Task Force on Financing for Development (IATF) called it in its 2022 report, has worsened in the last 12 months. The interest rate turnaround coupled with the rapid and huge increase in interest rates by central banks in the Global North has led to massively increased financing costs, currency devaluations and a rapid increase in systemic risks of debt crises in the Global South. Many countries are *de facto* cut off from international capital markets.

Despite geopolitical tensions, the UN system in particular made significant decisions last year that influenced debates at the FfD Forum. For example, the UN Climate Summit in Sharm-el Sheikh, Egypt agreed in principle on a Loss and Damage Fund, although its design and financing have yet to be worked out.

BRIEFING

The UN General Assembly adopted two important resolutions in autumn 2022. Resolution 77/244 on "Promotion of inclusive and effective international tax cooperation at the United Nations" decided to launch intergovernmental negotiations on tax cooperation at the UN. This had been a long-standing demand, especially of the G77 – the group of developing countries at the UN.

Resolution 77/156, on the other hand, made the long-awaited decision to convene the fourth FfD conference, tentatively scheduled for 2025, thus raising the FfD process to a higher political level and substantially upgrading it. Expectations are high that the FfD4 conference will provide new answers to the multiple crises and setbacks in SDG implementation. The new dynamics were already visible at this year's UN Economic and Social Council (ECOSOC) FfD Forum.

The preparatory process

For the first time since the coronavirus pandemic, the FfD Forum preparation process was able to operate as usual, since all contact and most travel restrictions were lifted. The Friends of Monterrey – a group of countries particularly engaged in the FfD process and co-chaired by Germany, Mexico and Switzerland – were also able to gather as usual in March for a two-day retreat in the Mexican capital, where key issues were discussed. Such formats were also important because there had been significant personnel changes in ministries and embassies over the years of the pandemic, and many of the new officials are still finding their way around the FfD process and issues.

As one of the three major ECOSOC forums, the 2023 FfD Forum was chaired by ECOSOC President Lachezera Stoeva of Bulgaria, who guided the process through the difficult political environment with a competent and steady hand. The co-chairs of the preparatory process this year were Portugal and Rwanda. The work of their ambassadors and teams was also highly praised.

As in previous years, the work of the IATF also fed into the negotiations. Its Financing for Sustainable Development Report 2023 was subtitled "Financing Sustainable Transformations". It placed a thematic focus on industrial policy, in line with the mandate of last year's forum. Calls were already made for the IATF report to take on more of a monitoring and accountability character at the Friends of Monterrey Retreat. In fact, this year's FfD Forum mandated the IATF to report on the implementation status of the main FfD agreements of Monterrey, Doha and Addis Ababa in the upcoming report, also in light of the preparations for the FfD4 conference in 2025.

From the civil society side, there was criticism that the institutions in the IATF were pre-negotiating consensus between themselves, which led to soft-washed policy recommendations and also undermined the role of member states. It would be better to aggregate the positions of the various institutions in a menu of options, as was done, for example, in the UN special process on "FfD in the Era of COVID-19 and Beyond". Quite obviously, it is inappropriate to let the very institutions whose deficiencies are to be addressed by reforms lead the discourse in the discussion on reforming the international financial architecture. In addition to numerous UN institutions, the IATF also includes the IMF, World Bank, World Trade Organization (WTO) and Organisation for Economic Co-operation and Development (OECD).

The negotiations and outcomes in the thematic areas

The Zero Draft of the outcome document was already published on 16 March by the co-chairs Portugal and Rwanda, shortly after the Friends of Monterrey retreat. Numerous informal meetings were then held at the UN headquarters in New York to negotiate the individual issues. The debates at the Forum itself were particularly interesting because they provided insight into the priorities of individual countries and negotiating groups. As a consensus document, the outcome document primarily reflects the common denominator of all 193 UN Member States. The FfD forum spanned four days. The full-length sessions were streamed live on UN Web TV, where they are also archived.

Domestic public resources (taxes)

Negotiations in this area were influenced by the UN General Assembly's decision to begin intergovernmental negotiations on tax cooperation. Advocates had hoped that the FfD Forum would take the process a step further, for example, by working on the modalities of the negotiations. This did not happen, but the outcome document refers positively to the new UN process and the report to be presented by the UN Secretary-General.

The extent to which institutions and policy processes outside the UN should be addressed was controversial. Traditionally, parts of the UN membership have been reluctant to see exclusive membership processes and their outcomes reflected in UN documents. However, under pressure from OECD Member States, the work of the OECD and bodies based there – such as the Inclusive Framework on Base Erosion and Profit Shifting, and the Global Forum on Transparency and Exchange of Tax Information, as well as the Addis Tax Initiative – has been noted. Following pressure from the G77, a clear commitment to stolen asset recovery was also included.

However, the chapter remains at the abstract level, in part because the issue of taxation will now have its own new place in the UN process, where relevant issues will be addressed exclusively and in detail.

Tax justice activists promoted the idea of a UN Tax Convention at the Forum. In the debates at the Forum itself, many Member States also spoke in favour of UN Tax Conventions, especially African countries, which continue to be the driving force behind this significant governance innovation. Civil society in particular also stressed the need for progressive tax systems if inequality is to be addressed. The removal of fossil fuel subsidies was another action that was suggested.

International public finance (ODA)

Just before the FfD Forum, as negotiations were already drawing to a close, the OECD's Development Assistance Committee (DAC) released the latest Official Development Assistance **(ODA) data**. These indicate that, while there was a significant increase in ODA in 2022, this was mostly due to increased spending on refugees and assistance from DAC Member States to Ukraine. Both can be counted as ODA under DAC rules. However, some donors voluntarily forgo this **much-criticised practice** because these categories deviate too much from the actual purpose of ODA, which is to finance development. In any case, DAC members continue to fall well short of the international target of providing 0.7% of Gross National Income (GNI) as ODA. The outcome document of the FfD Forum reaffirms the target, but without specifying concrete measures or a timetable for achieving it.

Blended financing instruments – i.e. mixed financing from ODA grants and other public or private funds – are increasingly under fire. Hopes that they could achieve a significant leverage effect and direct investments to poor countries and SDG-relevant sectors have not materialised in practice. The Zero Draft already called for a "new approach" that focuses less on quantitative leverage and more on aspects such as impact, additionality and fair risk-sharing between public and private partners. In

Campaign stunt on the sidelines of the FfD Forum. Photo: Marisol Ruiz Celorio a weakened form, the call for a different approach is also contained in the outcome document.

The debate on World Bank reform also played a role at the Forum itself, particularly in the sessions on reform of the international financial architecture and dialogue with the Bretton Woods institutions. There has been much support from both the South and the North. Calls from the North have been for expansion of the World Bank's mandate, while the primary calls from the South have been for more World Bank financing and, more importantly, cheaper financing. Calls to include multilateral development banks in comprehensive debt relief initiatives were made. The outcome document also refers positively to the ongoing reform processes at the World Bank but did not lead to any further progress.

For developing countries, especially small island states, it was important to get an appreciation in the outcome document of the ongoing work on the Multilateral Vulnerability Index (MVI). These countries suffer from the fact that access to concessional resources has so far been limited to poor countries, defined as those with low per capita income. It is hoped that, once the MVI is used, particularly vulnerable countries, for example, for climate-related natural disasters will also have more favourable access to finance.

The outcome document also welcomed the ongoing work of the UN Conference on Trade and Development (UNCTAD) to create a conceptual framework for measuring South-South cooperation (SSC). Unlike DAC member ODA, SSC continues to lack a clear definition or systematic measurement.

Debt issues

Perhaps the most significant issue in this year's FfD process was the new debt crises. The UN, the IMF and the World Bank are all ringing the alarm bells about the enormous increase in debt stocks in recent years, which are sustainable in fewer and fewer countries as financing conditions deteriorate. In increasing numbers of countries, the high and rapidly rising cost of servicing debt threatens to eat into budget resources for financing development and public goods: "debt kills the SDGs" has been used by civil society groups to sum up the problem.

The "Common Framework" developed by the G20 to conduct debt workouts has proven to be dysfunctional in practice. Criticisms focus on its lack of speed and reach, the latter because multilateral debt is excluded and there is no effective way to ensure private creditor participation. The Common Framework is also only applied in low-income

Plenary session at the FfD Forum. Photo: Bodo Ellmers countries, but many middle-income countries are also struggling with debt crises. The most recent example is Sri Lanka. The debate on debt architecture reform was then also a central theme at the Forum, featured in numerous interventions from Member States and other stakeholders.

Perhaps the most interesting part of the outcome document is paragraph 63, which calls for improved international mechanisms, both for payment suspensions and debt restructurings, that are accessible to all countries. Explicit consideration is given to a new tool for involving private creditors. Paragraph 61 further refers to multilateral coordination of all creditors, which implicitly includes multilateral creditors.

In addition, the outcome document also contains political statements of intent to increase debt swaps and the use of so-called state-contingent debt instruments, i.e., credit instruments that allow for a stay on payments in the event of shocks such as natural disasters. These were also called for at the Forum itself by a broad coalition of Member States from both North and South.

In the latest version, a reference to the IMF's surcharges (penalty interest rates) was also added. This IMF practice is controversial because it imposes additional costs on countries that are facing severe crises and have therefore had to take out large IMF loans. In the last decade, countries such as Greece and Argentina have suffered most from this. The next victim will be Ukraine, which means that the front of the surcharges' defenders in the political West seems to be slowly shaking.

Systemic issues and cross-cutting topics

Among the systemic issues, the rechannelling of Special Drawing Rights (SDRs) again played a role this year. It is worth noting that the outcome document also considers re-channelling through multilateral development banks. Currently, only IMF instruments are used for this purpose.

The debate on SDRs at the Forum itself went far beyond SDR rechannelling. Several speakers called for a new SDR allocation by the IMF. There were also calls for a change in the allocation mechanism so that SDRs could be used more according to need in the future, instead of going disproportionately to the richest IMF members, as was the case in the last allocation. Cuba's ambassador – who also holds the G77 chairmanship – asked a panel of experts about the extent to which SDRs could also be used directly for climate finance. This idea is a component of the **Bridgetown Initiative**, which many Member States responded to positively. The innovative use of SDRs also played a role at side events. For example, the Debt Relief for Green and Inclusive Recovery Projects presented a **new concept** that, in addition to comprehensive debt relief, also envisages an SDR-fed guarantee fund to reduce financing costs for developing countries.

The issue of rating agencies was also back on the Forum's agenda. Poor credit ratings by private agencies are one reason for the "Great Finance Divide", for the massively higher interest costs for many developing countries on international capital markets. The outcome document at least notes the options for a public rating agency.

The cross-cutting issues including access to vaccines and other aspects relevant to COVID-19 were addressed again this year. However, G77 demands for an expansion of production in developing countries were not considered. The passage from the Zero Draft to ensure "universal availability of and equitable access to vaccines …" was also deleted. The only agreement reached was to increase availability. Otherwise, reference was made to the ongoing work at the WTO about how the multilateral trading system can improve access. The need to reform intellectual property rights was raised again at the Forum itself.

Last but not least, climate and biodiversity finance issues were also addressed, in the aftermath of the two thematic COPs in 2022, which had significant implications for climate finance. The outcome document calls for the rapid establishment of the new Global Biodiversity Framework Fund.

As expected, the debates on climate finance at the Forum were heated. Civil society groups in particular stressed that climate finance should be provided as "reparations" and that the Global North must take responsibility and stop the extractivist exploitation of the South. Governments from the Global South also voiced their displeasure at the failure to meet the US$100 billion annual climate finance target and the difficulty in accessing climate funds.

The Loss and Damage paragraph was particularly strenuously negotiated. However, the passage on a Loss and Damage "Fund" was deleted from the final version of the outcome document. This is unusual, as the outcome document of last year's climate summit explicitly talks about a "Fund" and the adoption of agreed language from one UN document to another is usually diplomatically uncontroversial. The outcome document of the FfD Forum now speaks only vaguely of "funding arrangements". The exact institutional structure of loss and damage funding is thus likely to remain a hot topic on the UN agenda.

Geopolitics at the FfD Forum

At the beginning of the Forum, it was not entirely clear whether the outcome document could be adopted by consensus. At the last minute, a group of six countries led by Russia requested that a passage on "unilateral coercive actions" should still be included in the document. This was met with opposition, especially in the political West.

According to rumours, it was probably pressure from G77 countries that led the group to abandon this passage. Instead, the G77 spokesman used his speaking time at the closing session to vehemently criticise unilateral sanctions. G77 speaker this year, ironically, is Cuba – a country that has long suffered from genuinely unilateral sanctions imposed by the United States, which were not supported even by close US allies in Europe and Latin America.

The process is remarkable in that the tensions between Russia and the West since the invasion of Ukraine by Russian troops have led to forums such as the G20 or even the IMF and World Bank being politically blocked and no longer able to reach decisions by consensus.

In the UN framework, on the other hand, it has been possible to negotiate a substantive outcome on a substantive issue such as financing for development – which is of the highest relevance for the Global South – and to adopt it by consensus of the 193 UN Member States. This was obviously due to pressure from the G77, which made it clear that the bloc confrontation should not be carried out at the expense of its development prospects. As a group of developing and newly industrialised countries at the UN, the G77 once emerged from the "non-aligned countries" during the Cold War, which were nicknamed the "Third World" because of their third way.

Conclusion and next steps

The FfD process has gained significant momentum in 2023. The reasons are manifold. On the one hand, the challenges posed by multiple crises have grown. The setbacks to the 2030 Agenda have shocked many countries, and will be prominently featured on the international agenda this year as the official SDG midterm approaches. The geopolitically driven deadlock in other international policy forums, such as the G20 process or the IMF Board, may also play a role in countries increasingly using the UN FfD process as a channel for policy initiatives, simply because it is still open and working.

The UN FfD process is thus becoming better established as an international standard-setting process. What it still lacks, however, is better operationalisation and implementation capacity, or a clear link to implementation power and capacity. At the G20, clear work mandates are given to international institutions as a result of summit decisions. In contrast, how the follow-up to the normative decisions of the FfD Forum is done is less clear. One example is the Forum's decision to develop a "tool" for engaging private creditors in debt relief. This now exists as a political mandate but has yet to be realised in practice.

The fact that little happens in the FfD process between the annual April forums is also a constraint on its effectiveness. This year, the problem is likely to be mitigated by the fact that the SDG Summit in autumn will be followed by the High-Level Dialogue in Financing for Development on 20 September, where policy-makers will take positions on complex issues. Intergovernmental negotiations on taxation, as a result of UN Resolution 77/244, are also due to begin soon. It will be interesting to see what the UN Secretary-General had in mind when he not only promoted his proposal for an SDG Stimulus Package in his opening statement, but also explicitly offered that the UN could organise inclusive dialogue on sovereign debt.

The UN General Assembly is expected to make the final decision on the FfD4 conference in autumn and then move swiftly to determine the modalities. It it likely that the upcoming meeting of the FfD Forum in April 2024 will already make up part of the preparatory process for the new international conference.

Imprint

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Layout: www.kalinski.media

Bonn, May 2023

This briefing paper is part of the project "The Global Agenda for Financing Sustainable Development" of the Global Policy Forum Europe e.V., funded by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of the German Federal Ministry for Economic Cooperation and Development (BMZ).

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Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung