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BRIEFING

Broad consensus, paltry results

The UN Forum on Financing for Development 2021

by Bodo Ellmers

Summary

The UN Forum on Financing for Development (FfD) 2021 was the first FfD forum held as planned since the outbreak of the COVID-19 crisis. Accordingly, the expectations were high. Development finance is currently facing a triple challenge: to mitigate the humanitarian crisis, funds for an acute crisis response are needed – for example, to finance universal access to vaccines through the COVAX-facility, or for social protection measures. To mitigate the further divergence between countries, resources must be made available for economic stimulus programmes in the Global South that match those of the Global North. To prevent the failure of the Agenda 2030, the Sustainable Development Goal (SDG) financing gap that already existed before the COVID-19 crisis and has widened as a result of the crisis must be filled. The UN FfD Forum 2021 was a pivotal moment on the international policy calendar to take the necessary steps.

The agenda included the full range of issues that are the subject of the UN's FfD process: from taxes to debt, and from private investment and official development assistance (ODA) to the systemic issues of the international financial and trade architecture. The Financing Sustainable Development Report, published in advance, had provided negotiating parties with a wealth of policy recommendations. These built in part on the Menu of Options developed by the UN's special initiative "Financing for Development in the Era of COVID-19 and Beyond", which has been running in parallel for nearly a year. The informal Friends of Monterrey retreat in the immediate run-up to the Forum served to prepare consensus-building, outside of the rigid UN protocol. No FfD Forum in a long time has been so well prepared.

The zero draft of the final document contained some significant decisions, even if critical observers did not consider them enough to match current needs in times of severe crisis. While the negotiations were ongoing, decisions were taken on aspects such as the extension of the current G20 debt moratorium and the allocation of Special Drawing Rights by the International Monetary Fund (IMF), but at the IMF-World Bank Spring Meetings.

Numerous other proposals to strengthen the UN system – especially in the areas of debt and taxation, which were priorities for the Global South – were negotiated fiercely, but got massively diluted and weakened during the negotiations. The EU's priorities, which were predominantly at the interface of finance with climate and the environment, fared similarly. The fact that all decisions in the FfD process must be adopted by unanimous consensus proved to be problematic. Behind the scenes of the non-transparent virtual negotiations, at least one diplomat always blocked more concrete progress.

As a result, the Forum agreed on a comprehensive final document that initiates many significant innovations but makes few tangible decisions on them. This places a heavy burden on the follow-up process. An increasing number of actors are now calling for the convening of a new UN World Summit on Financing for Development as a decision-making moment in the spotlight, and of even greater political weight.

Introduction

The expectations for the UN Forum on Financing for Development (FfD) were high. It was the first regular FfD Forum of the UN's Economic and Social Council (ECOSOC) since the outbreak of the global COVID-19 crisis. The last FfD Forum in April 2020 had to be cut down to a two-hour virtual session due to travel and meeting restrictions.

Therefore, high demands were placed on the forum, especially to:

- Find ways for countries in the Global South to respond to the crisis with similar financial packages as their peers in the North, and initiate the SDG-compatible reconstruction of their economies in the spirit of "building forward better".
- Review the lessons learnt during the crisis and translate them into appropriate reforms, as the crisis has ruthlessly exposed the lack of resilience, especially among countries in the Global South, to economic shocks.
- Serve as a moment of decision-making to advance the implementation of at least some of the 200 policy options developed in 2020 by the UN's special initiative **"Financing for Development in the Era of COVID-19 and Beyond".**

Economically strong countries were able to mitigate the economic and social consequences of the crisis with state-funded rescue and stimulus packages of an unprecedented size. The volume of fiscal packages in rich countries amounted to US$18 trillion, many times more than what was deployed in the global financial crisis a decade earlier. Countries in the Global South either did not have this leeway at all or, where they did make use of deficit spending, government and external debt levels surged from already critical levels. A study by UN Conference on Trade and Development (UNCTAD) experts also found that neither the Global North nor the Global South had sufficiently aligned their stimulus packages with sustainable development.

The issue of resilience was given special consideration this year. On the advice of UN Member States, the 2021 Financing Sustainable Development Report of the Inter-Agency Task Force (IATF) on Financing for Development included a focus chapter on the topic. The IATF report is prepared by the UN together with the IMF and the World Bank, and provides technical input for the political negotiations. Resilience was chosen because the COVID-19 shock in spring 2020 caused all pillars of development financing to collapse simultaneously, and triggered a massive capital flight from the Global South to supposedly safer havens for footloose capital. It also became clear that health and social security systems could not provide adequate protection for the population, particularly in the Global South.

In terms of policy work, no previous FfD forum has been as well prepared as this one. FfD experts have criticised the UN for not doing enough continuous FfD work between forums. This year was different. Starting in May 2020, the special process "Financing for Development in the Era of COVID-19 and Beyond" took place at the UN. In September 2020, their six thematic working groups had presented a **"Menu of Options"** with about 200 **FfD policy options,** which were politically debated at four high-level events in the meantime. However, this initiative had no mandate to pass resolutions. Therefore, in the implementation strategy, the formally mandated ECOSOC FfD Forum was considered the moment when decisions could be made and reforms could be put into practice.

Preparation for the Forum

The Financing for Sustainable Development Report

The Financing for Sustainable Development Report 2021 was published by the IATF on 25 March 2021. An advanced unedited version was already available from 3 March. On the one hand, this was to inform the negotiation process for the final document of the FfD Forum and, on the other hand, to be consulted with stakeholders, as in particular the policy recommendations of the IATF-report have great political relevance.

The analysis section of the 200-page report is generally regarded as the most comprehensive collection of facts and figures on development finance. It is oriented around the various thematic blocks or action areas of the FfD agenda (see Box 1).

This year, the IATF's policy recommendations were grouped into three blocks. The first, "Immediate Action", focuses on measures that create new liquidity in the short term, such as an extension of the G20's debt moratorium for low-income countries, a new allocation of special drawing rights (SDRs) by the IMF, or an increase in ODA by Organisation for Economic Co-operation and Development (OECD) countries towards the

Action Areas of the FfD Agenda

- **A** Domestic public funding
- **B** Domestic and international private sector and finance
- **C** International development cooperation
- **D** International trade as an engine of development
- **E** Debt and debt sustainability
- **F** Addressing systemic issues
- **G** Science, technology, innovation and capacity building

Quelle: Addis Abeba Action Agenda

0.7% target. The second part on "Recovering Better" calls for the mobilisation of additional public resources, including through more progressive tax systems, new credit facilities and debt swaps. Private investment should become better aligned to the 2030 Agenda by developing globally consistent standards for sustainable investment.

However, there have also been critical voices of the IATF report. For example, non-governmental organisations (NGOs) in the informal consultations objected to the focus on "Risks and Resilience". In the midst of the crisis, they argued, it would have been better to focus on how FfD could provide concrete help to the billions of people affected, some of them in life-threatening situations, especially in the Global South. There was also criticism that the institutions in the IATF could not agree to explicitly support more fundamental reforms of the financial architecture currently under discussion, such as a sovereign debt workout mechanism or a UN Tax Convention.

The Friends of Monterrey retreat

The informal Friends of Monterrey group held its fifth retreat this year in preparation for the FfD Forum. Named after the Mexican city where the first Financing for Development conference was held in 2002, the group provides an informal forum in which new policy options on financing for development can be discussed beyond the rigid UN protocol and under Chatham House rules. It is co-coordinated by Germany, Mexico and Switzerland, and usually convenes a couple of weeks ahead of the FfD Forum in Mexico, but this year was held virtually.

The 17–18 March meeting attracted 130 invited participants. Among them was a broad mix of FfD stakeholders including representatives of UN Member State governments from North and South, UN agencies, private sector, NGOs, and think tanks (including the Global Policy Forum). In addition to the traditional Action Areas of the FfD process, this year's agenda included a focus session on "Green & Sustainable Recovery". In light of the ongoing economic and financial crisis, much space was also devoted to the topic of debt sustainability and debt crises, with a well-attended break-out group.

To make the link to the UN's FfD special initiative, the ambassadors of Jamaica and Canada were also invited, as these countries have been leading the initiative as co-chairs. Marcelo Ebrard, Foreign Minister of the virtual host country Mexico, opened the meeting. The discussions were held in a certain spirit of optimism, as the coronavirus crisis has given a huge boost to the political importance of development finance on the international agenda, and has awakened the FfD process from its slumber. The minutes of the meeting reflect the wealth of ideas presented at the retreat, and should actually be published.

The political negotiations on the final document

This especially because few of these ideas made it into the official outcome document of the FfD Forum. The negotiations this year were led by Fiji and the Netherlands as Co-Chairs, represented by their UN Ambassadors Satyendra Prasad and Yoka Brandt. Both countries had already played leading roles as working group co-chairs in last year's FfD special initiative.

The zero draft of the final document was prepared based on inputs from UN Member States and was published on 19 March. Even the zero draft, however, contained little substance. While it addressed a broad range of issues, it included only the following in terms of concrete institutional innovations:

a) "We decide to establish an inclusive and legitimate global coordination mechanism at United Nations Economic and Social Council (ECOSOC) to address financial integrity at a systemic level."

b) "We call on the international community to initiate dialogue with a view to establishing a global forum on sovereign debt as an inclusive platform."

The first innovation, the coordination mechanism on financial integrity at ECOSOC, was taken from the FACTI report published in February. The report was drafted by the FACTI Panel, a UN expert group that met throughout 2020 and included a variety of senior politicians and renowned academics. It had been convened by the then President of ECOSOC and the President of the UN General Assembly to find solutions to the problem of illicit financial flows, through which several US$100 billion of development finance is lost annually.

The second innovation, the Sovereign Debt Forum, could serve on the one hand to develop better policies and institutions to prevent and resolve debt crises and, more specifically, to better coordinate the myriad of different creditors in debt restructurings. Engaging private creditors in particular has failed in the COVID-19 crisis. So far, only the bilateral creditors have agreed on a joint debt moratorium at the G20 and the Paris Club. Neither the G20 nor the Paris Club are inclusive in the UN's sense, as they leave behind the vast majority of UN Member States. Hence the need to create an inclusive forum.

Furthermore, the zero draft contained a whole series of calls to Member States, notably:

» To approve a new allocation of Special Drawing Rights worth US$500 billion and for richer countries to voluntarily redistribute their share.

» To relax the eligibility criteria for the G20 Debt Service Suspension Initiative (DSSI) so that middle-income countries can also benefit and to extend it beyond 2021.

» To donor countries to increase their ODA to 0.7% of Gross National Income (GNI) and to align it more closely with partner countries' priorities.

» To the UN to help developing countries build capacities to tax the digital economy.

» Also to the UN, to support open source initiatives so that new technologies can spread faster.

In addition, the zero draft committed to the creation of a new Liquidity and Sustainability Facility (LSF), which aims to reduce borrowing costs for countries in the Global South, and to introduce carbon pricing. In the final paragraph, the zero draft included a commitment to hold a new World Conference on Financing for Development, which would have become the Monterrey+20 Conference. This was important because significant reforms would require greater political momentum than the FfD forums are capable of building. Moreover, the Addis Ababa Action Agenda, the agreement reached at the last FfD summit held in the Ethiopian capital in 2015, is partly outdated and no longer up to the FfD challenges in the times of COVID-19 and beyond. Among other stakeholders, CSOs specialising in FfD had called for the convening of the Monterrey+20 conference.

Already the zero draft did not meet the needs of the COVID-19 crisis. In the area of taxes, for example, only the carbon tax was explicitly addressed. But not other types of taxes that are currently being discussed to mobilise more resources in a progressive way, especially wealth taxes, digital taxes and the excessive profit tax, which could skim off the profits of those who have become even richer due to the crisis. In the area of tax governance, the call for a UN Tax Convention was not included. Apart from the ECOSOC mechanism, none of the 14 recommendations of the FACTI panel were adopted, meaning that the first chance for implementation was lost.

In the area of debt, more far-reaching proposals for a debt workout mechanism or a sovereign insolvency regime were left out Also missing was a clear commitment to cancel debts where necessary, and not to put their payment on the back burner by means of a moratorium. The list could be continued endlessly. Of the 200 policy options in last year's UN special initiative, only a fraction found their way into the zero draft. Of these, only a fraction found their way into a formulation that suggests any binding commitment.

The course of the negotiations

Two items were partially ticked off in other forums while the UN was negotiating the outcome document: At the IMF-World Bank Spring Meetings, held a week before the FfD forum, an allocation of SDRs worth US$650 billion was agreed, but no concrete steps were agreed on redistribution. An extension of the DSSI to the end of 2021 was also agreed, but no extension was given to middle-income countries or beyond 2021.

On 30 March, the first draft of the outcome document was published. The changes are based on comments from UN Member States and have not been made public. The informal negotiations themselves – this year virtual – were completely inaccessible for observers this time. Usually, the meeting rooms in New York, where the negotiations take place, are open to observers with ECOSOC accreditation, including to the experts of the Global Policy Forum. Due to this lack of transparency, there is less clarity this year about what positions individual parties have taken in the negotiation process.

As usual, the EU participated as a group and coordinated internally. The EU's priorities in the negotiations were predominantly in the area of the environment: above all, to get relatively strong commitments on issues such as the development of global standards for sustainable investment, the introduction of carbon taxes and the phasing out of fossil fuel subsidies. In addition, there was a call to recognise institutions developed by the EU, its Member States, or by organisations in which the EU plays a strong role. These were, for example:

- The **Addis Tax Initiative** (ATI), whose new phase begins this year, and whose secretariat is based in Bonn.
- **Total Official Support for Sustainable Development** (TOSSD), a new OECD accounting method to complement the one used to calculate ODA.
- The **Financial Action Task Force** (FATF), once founded by the G7 and currently chaired by Germany, whose role is to combat money laundering and terrorism financing.
- The Paris Club's **"Common Framework** for Debt Treatments", which seeks to integrate China into the debt crisis management orchestrated by the French Finance Ministry.

At the same time, however, the EU opposed institutional upgrading of the UN in the economic and financial spheres, in this case specifically the ECOSOC mechanism on Financial Integrity, the Sovereign Debt Forum and anything in the debt field that might go beyond the Paris Club. Neither did the EU necessarily see the added value of a Monterrey+20 conference. On such positions, the EU received support from other countries of the Global North, which are well represented in more exclusive parallel forums of the international financial architecture such as the G20, the OECD or the Bretton Woods institutions IMF and World Bank.

Other states had different priorities: Small Island States, for example, advocated for "vulnerability" to be recognised as a criterion for concessional financing and debt relief, given their frequent exposure to shocks such as hurricanes and now the tourism crisis. Carbon taxes and removal of subsidies on fossil fuels met with less enthusiasm from them, as affordable air and sea transportation is critical to their survival.

Vaccines and their financing remain the elephant in the room in UN negotiations, including at this year's FfD Forum. Developing countries united in the G77 and China, in particular, pushed for vaccines to be designated as "global public goods". However, the question of whether patents should be repealed through a TRIPS waiver was not openly fought out at this forum. The debate centred around filling the funding gap of the COVAX vaccine facility. The G77 also championed the new innovations that have recently come out of the South, notably the Liquidity and Sustainability Facility, and the Fund to Alleviate COVID-Economics (FACE), an innovative large-volume concessional financing facility.

Because the FfD process at the UN is a consensus-based process, it only takes the objection of a single Member State to block an innovation. Member States' objections therefore meant that the final document lost a great deal of its binding character on its way from zero draft to **first draft,** as some elements were completely deleted and others were rewritten into a non-binding narrative.

For example, the ECOSOC coordination mechanism no longer appears in the first draft. Instead of a commitment to a Sovereign Debt Forum, it reads "initiate dialogue towards an inclusive platform on sovereign debt". A few items were added, including a non-binding call to donor countries to find ways to redistribute SDRs, as well as a reference to the FACE facility. ATI, FATF and TOSSD are also mentioned in the First Draft. In contrast, the call for the UN to promote the shift to open source technologies has also been deleted.

Contrary to what was intended, the negotiations on the outcome document could not be concluded before the start of the actual forum. Although a final draft was circulated shortly before the Forum, the silence procedure was broken by several UN Member States, which exercised their right to object. The negotiations dragged on literally until the last minute. Only shortly before the final session on the final day of the Forum, at which the document must be formally adopted, could an agreed text be circulated. And even then, at the final session, there were numerous interventions by UN Member States seeking clarifications or even distancing themselves from individual points.

On the way from the first to the final draft, there were still some substantial changes, too. For example, private financiers also got invited to contribute to the financing of the COVAX facility. A positive reference to Integrated National Financing Frameworks (INFFs) was added, a new planning tool to facilitate SDG financing. The passage on FATF was strengthened even further. In exchange, the last tangible institutional innovation was deleted: the call for UNODC and the World Bank to present a proposal for a "multilateral mediation mechanism for asset recovery and return" before the next FfD Forum. The section on the Sovereign Debt Forum was rewritten so that it does not require action, or could even simply mean an upgrade of the Paris Club. The language on environmental issues was weakened throughout. Perhaps the most significant change from a procedural perspective: the stipulation that the next World Conference on Financing for Development will take place in 2022 was also taken out.

The result is a **final outcome document** that addresses numerous important aspects but does not contain a single tangible decision. It says a lot that ECOSOC Chairman Munir Akram had to announce at the closing session that the outcome of the 2021 Financing for Development Forum "has no budget implications" for the UN, which in practice means that no new institutions were created and no funds were moved. The negotiating parties lacked the necessary spirit to comprise and agree on an outcome adequate for the needs of financing development in the COVID-19 crisis and beyond. Unfortunately, an indication that the crisis of multilateralism was not due solely to Donald Trump being in the White House, but continues.

In the first round of negotiations, the EU and other actors from the Global North prevented the institutional innovations in finance and economics that were important to the countries of the Global South. These retaliated by blocking the environmental issues that were a priority for the EU. This also revealed the underlying conflict as to what role the UN should play: For the EU, the UN is obviously first and foremost a body for discussing international environmental policy; for the Global South, it is also and especially an institution for decision-making in matters of international economic and financial affairs.

The debates at the Forum on financing for Development

The **current FfD Forum** was of course still affected by the travel and meeting restrictions during the ongoing COVID-19 pandemic. At least it could again take place over a four-day period. The sessions were held in a hybrid format, with diplomats from New York physically present and delegations from capitals videoed in. The individual sessions were also broadcast via **UN Web TV,** and can still be viewed in the archive. The programme started with a one-day High-Level Segment. This was desgned to highlight the special relevance of this year's forum due to the COVID-19 crisis.

Pakistan's President Imran Khan – Pakistan holds the chairmanship of ECOSOC – focused on the vaccine issue in his opening statement: "The vaccine must be available to everyone, everywhere". He called for the lifting of patents and for countries not to exploit vaccines for foreign policy purposes. He stressed that this forum must help to ensure that developing countries also have sufficient resources to counter the crises. Among other things, he stressed the need for debt relief, including from private creditors, and global minimum taxes for corporate profits. As Pakistan has recently been subject to numerous lawsuits by foreign corporations and investors, he also stressed the need to reform unfair investment agreements.

UN Secretary-General António Guterres called for more solidarity: "The crisis is putting multilateralism to a test, and so far we have failed." While some countries are fighting the crisis at home with billion-dollar fiscal packages, there is a lack of support for developing countries. The financing gap of the COVAX facility urgently needs to be closed, he said. Donor countries would need to provide more concessional funds, and debt relief initiatives would need to be expanded. He added that the international debt architecture needs to be reformed, in an inclusive process. He also noted that the world's billionaires have become even richer as a result of the crisis, and he called for a solidarity wealth tax. This was a demand that was picked up by media articles across the globe.

Harsh criticism of the obstructionist approach to institution building on the part of actors from the Global North came at the forum from this year's co-chair of the process, Fiji's UN Ambassador Satyendra Prasad: He spoke on behalf of the Small Island Development States (SIDS). In the context of rich countries' lack of solidarity and vaccine nationalism, he noted, "We are at the backend of global recovery." In light of the dominance of exclusive forums like G20 and others, he emphasised: "We want to shape the recovery, rather than having recovery frameworks designed for us."

Vaccines and debt relief were recurring themes in the numerous statements at the high-level event. On the latter, there were frequent calls from middle-income countries, including SIDS, that eligibility for debt relief needs to be extended beyond low-income countries. Jamaica vehemently called for more far-reaching steps, a Sovereign Debt Workout Mechanism. Malawi, as spokesperson for the Least Developed Countries (LDCs), called for full debt cancellation for LDCs.

EU Commissioner Jutta Urpilainen argued that more private as well as public, and more foreign as well as domestic resources, were needed. She stressed that achieving the 2030 Agenda was "almost out of reach" but presented limited concrete suggestions on how that could be changed, other than a reference to the "global recovery plan" already hinted at by the President of the European Commission von der Leyen in May 2020. Apparently, no broad consensus could be found even within the EU subgroup.

During the following three days, **thematic panels** were held on some of the most important current issues in development finance, such as:

» Accelerating infrastructure investments for a sustainable and resilient recovery.

» Developing solutions to debt crises.

» Involving of private creditors and rating agencies in crisis response.

» Mobilising liquidity for developing countries.

» Implementing concrete actions on illicit financial flows.

» Transforming the economy in line with the 2030 Agenda and climate agreements.

Each of the panels included representatives from governments and international institutions, as well as some academics. CSOs appointed a first respondent to each panel, and other CSO representatives could participate with interventions in the subsequent debates. CSOs made intensive use of these opportunities. **Their statements** are available online on the website of the Civil Society Financing for Development Group.

In addition to the plenary sessions, several dozen **side-events** were held on a wide range of topics, including debt-for-climate swaps, the role of the private sector in post-crisis reconstruction, the Addis Tax Initiative, the future of the FfD-process at the United Nations, and many more.

At the final session on 15 April, some Member States intervened to reiterate what aspects they would have strengthened in the final document, or what they distanced themselves from. Amina Mohammed, the UN Assistant Secretary-General, stressed that current support is not sufficient to prevent a new lost decade of development in the Global South: "The diverging world is a catastrophe for all of us." She stressed the most urgent steps to first secure vaccine supplies and provide sufficient liquidity for all countries.

The Forum ended with the UN Member States adopting the final document by consensus. While it represents a comprehensive policy statement that addresses many significant aspects of financing for development, it lacks sharpness and commitment throughout. Given the crisis and the backlog in implementing Agenda 2030, this is a very unfortunate outcome.

Even after the 2021 Financing for Development Forum, the warning by the UN Secretary-General **in the run-up** to it still holds true: "Financing for sustainable development is at a crossroads. Either we close the yawning gap between political ambition and development financing, or we will fail to deliver the SDGs by the deadline of 2030." The convening of a Monterrey+20 World Summit on Financing for Development has thus become ever more important and urgent.

Imprint

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