

# READY FOR A TURNAROUND

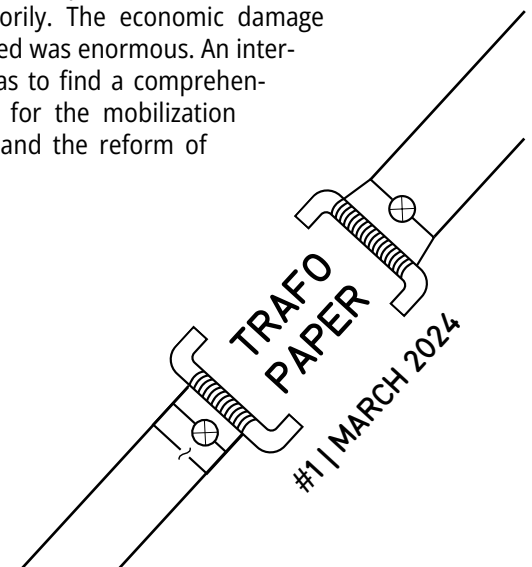
## The 4<sup>th</sup> International Conference on Financing for Development and its main challenges

*by Bodo Ellmers and Wolfgang Obenland*

In December 2023, the United Nations General Assembly finally gave the mandate to convene the 4th International Conference on Financing for Development (FfD4). In a challenging economic and geopolitical environment, high expectations are placed on the conference. On the one hand, ways and means are to be found to mobilize additional funds in order to at least significantly reduce the enormous financing gaps in development and climate action. On the other hand, FfD4 is also intended to be a milestone for the reform of international institutions, i.e. to help make the international financial and trade architecture fit for the challenges of the present and future. Spain has been nominated to host the conference. The actual world summit is to take place there in summer 2025. With the first meeting of the organizing committee on 23 February 2024 at the UN headquarters in New York, the preparatory process has entered its hot phase.

### What it's all about

The financing for development (FfD) process is a child of the turn of the millennium. Developing countries in particular insisted that FfD be placed prominently on the agenda of the United Nations. This was partly because a whole series of world conferences had taken place in the 1990s on various issues, which adopted extensive catalogs of goals. However, there was a lack of implementation because neither funding had been secured nor had the appropriate institutions been created. In addition, several regions had been hit by a series of severe financial crises: South East Asia in the late 1990s, Latin America in the early 2000s. The existing institutions of the international financial architecture were neither able to prevent these crises nor resolve them satisfactorily. The economic damage for the countries affected was enormous. An international conference was to find a comprehensive policy framework for the mobilization of financial resources and the reform of financial institutions.



The preparatory process for the 1<sup>st</sup> International Conference on Financing for Development, which took place in Monterrey, Mexico, in March 2002, already established the “holistic approach” of the FfD process. It was decidedly not just about official development assistance (ODA) in the narrower sense, but about all financial and non-financial instruments that can potentially be used to achieve development goals. The final document, the so-called Monterrey Consensus,<sup>1</sup> was accordingly divided into six pillars which, with a few adjustments, still structure the FfD process today:

1. Mobilization of domestic financial resources
2. Foreign direct investment and other private financial flows
3. Trade as a driver of development
4. Financial and technical cooperation
5. Foreign debt
6. Systemic issues, including monetary policy and the international financial system.

The sixth topic area in particular was the focus of interest, as it dealt with cross-cutting issues such as the reform of the international financial and trade architecture, i.e. the reform of those institutions that can regulate financial flows.

The second FfD conference took place in Doha in 2008. It was marked by the global financial crisis, which had been triggered by bad loans on the US real estate market and had spread from there to the banking system worldwide. The conference became very political because it was prepared in direct competition with the G20 club format, which was gaining enormous political importance at the same time. The question of who should sit at the table when fundamental questions of international economic and financial policy are clarified

was answered exclusively by the large and powerful countries. They met for the first time in 2008 at the level of heads of state and government. The majority of countries in the global South were thus left out.

The third FfD conference took place in 2015 in the same year in which the 2030 Agenda with its 17 Sustainable Development Goals was adopted at the World Summit on Sustainable Development, and the UN Climate Conference adopted the groundbreaking Paris Agreement. At the insistence of the developing countries, FfD3 was brought forward in time to the other conferences. As a lesson from the 1990s, the aim was to avoid another comprehensive catalog of development goals being agreed without the corresponding financial and institutional means of implementation being secured beforehand. The result of FfD3 was the Addis Ababa Action Agenda (AAAA), which still provides the financing framework for the 2030 Agenda and for sustainable development in general.<sup>2</sup>

One of the successes of the FfD process is certainly that certain issues were kept on the agenda for many years until the political climate was ripe for implementation. International tax policy and the fight against tax evasion and avoidance are just one example of this. In the run-up to the Monterrey conference in 2002, a commission of experts had already proposed the creation of an international tax organization. At FfD3, the most hotly debated topic was whether a body on taxation should be set up at the United Nations and composed of government representatives. At the end of 2022, the Africa Group at the United Nations took the initiative and proposed the creation of a UN Tax Convention through a draft UN General Assembly resolution. In February 2024, the UN members finally initiated the negotiations on the convention.

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1 [https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A\\_CONF.198.11.pdf](https://www.un.org/en/development/desa/population/migration/generalassembly/docs/globalcompact/A_CONF.198.11.pdf)

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2 [https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA\\_Outcome.pdf](https://www.un.org/esa/ffd/wp-content/uploads/2015/08/AAAA_Outcome.pdf)

## Why a fourth conference?

A decision on a follow-up conference should actually have been made in 2019. The political hesitation of the stakeholders and the coronavirus pandemic delayed its convening. However, it was undisputed that there was a need to continuously develop global financial and economic policy. This is demonstrated by the fact that the G20 has met annually at the level of heads of state and government since 2008, and even several times a year at the level of finance ministers – albeit largely excluding the majority of developing countries. Unsurprisingly, the agreements reached do not (primarily) reflect their interests and needs. This is set to change with FfD4. The hosts have already made it clear that they want to create a format in which all countries can sit at the table and negotiate on an equal footing.

The situation today is similar to that at the end of the 1990s. The enormous delay in implementing the 2030 Agenda shows that, once again, there are not enough financial and non-financial implementation instruments available to actually achieve internationally agreed development goals. The severity with which the coronavirus crisis has hit the developing countries economically and financially shows that there is still a lack of effective international financial institutions that can protect less resilient countries from shocks and guarantee them access to financial resources on affordable terms in times of crisis. As a result, a whole series of countries have fallen into deep sovereign debt crises, for the sustainable and rapid resolution of which no effective instruments have yet been provided, even in the G20 context.

## The challenges for FfD4

The topics that are likely to be at the center of political and public attention at FfD4 result from the major challenges currently facing the global economy, which are being further fueled by a tense multilateral climate:

- » Driven by the interest rate reversal – and at least partly self-imposed austerity measures – the financing situation has deteriorated worldwide. Loans are becoming more expensive, budgets are shrinking, both on the part of traditional donors and recipients of development cooperation funds. This situation is exacerbated by soaring defense budgets in some countries.
- » In many countries, this environment, coupled with the very tangible economic consequences of the coronavirus pandemic, has led to veritable debt crises. In addition to acute payment difficulties – such as in Ghana, Zambia and Sri Lanka – this has led to a sharp increase in debt servicing by developing countries, which includes both domestic and foreign debt payments, and is now devouring an average of 38 percent of budget revenues<sup>3</sup>
- » At the same time, the need for international public finance has probably never been greater. The triple ecological crisis – climate change, biodiversity loss, and pollution – calls for ever greater (state) intervention and international financial solidarity. This is also leading to a growing debate about environmentally harmful subsidies and environmental taxes on the revenue side.
- » Global and interregional trade flows are increasingly reaching their limits. Geopolitical considerations and access to raw materials that are considered critical are dominating international interactions. The World Trade Organization, at least in its current configuration, does not appear to be in a position to deal with this situation.
- » In this situation, decision-makers are increasingly turning their attention to institutional and structural reforms. Improved cooperation between states on tax matters has recently found a home in a new UN process. Reform processes to increase the efficiency and effectiveness of international financial institutions have been initiated.

<sup>3</sup> <https://ptf.forumue.de/schulden/die-schlimmste-schuldenkrise-aller-zeiten/>

## The negotiation process

The mandate for FfD4 was given by the UN General Assembly by resolution in December 2024.<sup>4</sup> A first meeting of the Preparatory Committee took place in New York on February 23, 2024. It defined the framework and milestones for the negotiation process.

The actual FfD-4 conference will take place from June 30 to July 3, 2025 in Spain and most likely in Madrid. It will be preceded by up to five preparatory or negotiation rounds lasting up to five days. The first meeting will take place from July 22 to 26, 2024 in the Ethiopian capital Addis Ababa and will primarily take stock of what has been achieved since FfD3. The actual negotiations are scheduled to begin in New York in December 2024 and continue in Mexico City in February 2025. Two possibly necessary additional rounds of negotiations, at which a final document for FfD4 is to be agreed, are to take place in New York in the first half of 2025.

In addition, the regular follow-up process to the Addis Ababa Action Agenda continues. At the end of March/beginning of April, the Financing for Sustainable Development Report of the Inter-agency Taskforce on Financing for Development, a working group of more than 70 international organizations, is traditionally published on the implementation status of the AAAA. At the end of March, the so-called Group of Friends of Monterrey – a group of “FfD champions” among the UN member states co-chaired by the governments of Mexico, Germany and Switzerland – meets for an informal exchange in an informal setting. In April, UN members will then meet within the framework of the UN Economic and Social Council for the Forum on Financing for Development follow-up, which assesses progress and problems in implementing the AAAA as part of a negotiated final document.

4 <https://daccess-ods.un.org/access.nsf/Get?OpenAgent&DS=A/RES/78/231&Lang=E>

## When would FfD4 be successful?

The decision for FfD4 in itself was a success. After many years of primarily technical discussions at working level, the FfD process has been raised to the necessary political level. In addition, the majority of UN members, who are either not invited to act in the exclusive club formats such as the G7 or G20, or are unable to do so on an equal footing, as is the case within the OECD or the Bretton Woods institutions, now have the opportunity to participate on eye-level in decision-making on the central issues of the international financial and economic architecture. This is a success, especially for the least developed countries, which have the greatest need to catch up, and for small island states, which are considered particularly vulnerable to shocks such as climate change.

The FfD process also offers civil society actors greater opportunities for participation. It is significantly more transparent and participatory than comparable processes. Civil society – and therefore also the representatives of vulnerable population groups, trade unionists, etc. – sit in the room at FfD and not in telegenic but less influential parallel events, as is becoming increasingly popular at the G7/G20 and recently again at the United Nations (e.g. in the preparatory process for the Summit of the Future).

But of course, FfD4 must produce results, for the conference and the subsequent implementation process to be considered a success. The following results, for example, are conceivable:

- » A genuine, rules-based sovereign insolvency regime to resolve current debt crises faster and with less collateral damage to development, and to avoid future debt crises.<sup>5</sup>
- » The creation of fresh, non-debt-generating liquidity for developing countries. Complementary to the realization of financial commitments already made, a reform of the IMF's Special Drawing Rights regime could provide a solution.<sup>6</sup>

5 <https://erlassjahr.de/wordpress/wp-content/uploads/2023/03/SR23-Vom-Common-Framework-zum-Staateninsolvenzverfahren.pdf>

6 <https://ptf.forumue.de/systemische-fragen/iwf-sonder-ziehungsrechte-und-ihre-weiterleitung/>

- » The introduction of genuine institutional reforms to the International Monetary Fund. These include a reform of voting rights as well as, for example, the abolition of the counterproductive penalty interest rates for borrowers, the so-called surcharges, which exacerbate the fiscal crises in borrower countries.<sup>7</sup>
- » The resumption of discussions on globally coordinated taxes. The idea of a financial transaction tax, globally coordinated CO<sub>2</sub>-sensitive wealth taxes, airline ticket levies and much more is currently being taken up again in climate policy and could be linked to the negotiations on a UN tax convention that are currently being held at the UN.
- » An intergovernmental financing conference should also deliver international public finance. Even in a difficult interest rate environment and with increasingly scarce budgetary resources, richer countries must find ways to deliver additional funds needed to tackle climate change and the biodiversity crisis.

The follow-up process of the 3<sup>rd</sup> FfD Conference in Addis Ababa has also shown that its design is of central importance for the actual realization of the conference results. A successor body to the FfD Forum, however it is named, should be empowered to review the implementation of resolutions, carry out work assignments, deal with new issues that arise and, above all, reach politically binding agreements.

Moreover, the monitoring of the implementation of decisions has been in need of improvement over the last eight years. A look at the review mechanisms in the area of human rights with its peer reviews could be helpful here. It is also important to take greater account of spillovers, for example between monetary policy in the financial centers of the North and the debt situation in developing countries. In this sense, the so-called Integrated National Financing Frameworks introduced after FfD3, which currently place all the burden on the developing countries, could be further developed to include so-called spill-over analyses, i.e. (co-)responsibilities of the financially powerful countries.

The alarming mid-term review of the 2030 Agenda has shown that the necessary resources and institutions for the practical implementation of sustainable development are lacking. This is precisely where the FfD4 conference comes in. It is now important that the UN member states work together constructively in the preparatory process and in Spain itself. Then FfD4 can make a significant contribution to closing the glaring institutional and financial gaps and putting the 2030 Agenda back on a more positive track.

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7 <https://link.springer.com/article/10.1057/s41301-022-00340-5>

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