

Monterrey+20

A primer on the UN's Financing for Development process

Introduction

This year marks the 20th anniversary of the UN's Financing for Development (FfD) process. Over the past two decades, three world conferences have developed a comprehensive multilateral action plan for financing sustainable development.

The launch of the FfD process with the 2002 Monterrey Conference in Mexico was influenced by the 1997 Asian financial crisis on the one hand, and by the adoption of the United Nations Millennium Declaration including the eight Millennium Development Goals (MDGs) in 2000 on the other. The conference faced the dual challenge of advancing reform of the international financial architecture to prevent future crises, and mobilizing the financial resources needed to realize the UN development goals. The follow-up conferences in Doha (2008) and Addis Ababa (2015) complemented and updated the Monterrey Consensus, the outcome of the first international conference on FfD in 2002.

Similar challenges to those that shaped the Monterrey summit arise again today – the COVID-19 crisis has been even more severe than earlier crises. Particularly in the global South, the economic slump continues, and in many places has wiped out a decade's worth of development progress. More than 100 million people have fallen back into extreme poverty. The current global development agenda, the 2030 Agenda with its 17 Sustainable Development Goals (SDGs), threatens to be derailed because not enough funding is available for its implementation.

The backlog in implementing the 2030 Agenda for Sustainable Development, which existed before the COVID-19 crisis and has not improved since,

makes it clear that there is a lot of unfinished business in development finance. Tax revenues in the Global South remain too low, partly due to the unfair distribution of taxing rights between countries in the North and in the South. Wealthy countries are failing to meet their commitments to provide adequate levels of development finance and climate finance. Private investment is not flowing to the right countries and sectors to achieve the SDGs. Because of inadequate regulation, some profit-driven private actors do more harm than good. High levels of debt weigh heavily on countries in the global South.

If the backlog in implementing the SDGs is to be cleared, more development finance needs to be mobilized at both the domestic and the international level. The UN's FfD process is the key forum for reaching the appropriate international agreements. The convening of a new world conference – the fourth International Conference on Financing for Development, or Monterrey+20 – is urgently needed. In parallel, however, the EU and EU Member States must also do their homework and implement existing FfD agreements at home.

This briefing paper gives an overview of the current challenges in different development finance action areas. In the second part, we give an overview of the UN's FfD process and of the international agreements on Financing for Development. Based on our analysis, we identify 10 key levers for financing sustainable development. With these, Europe can make a substantial contribution to financing for development and thereby to the successful implementation of the 2030 Agenda for Sustainable Development worldwide.

Europe's role in Financing for Development – 10 policy levers for immediate action by the EU and its Member States:

1. **Increase official development assistance:** Provide at least 0.7 percent of GNI as ODA, while complying with international agreements on aid effectiveness and refrain from inflating the development budget. Climate financing must be provided in addition to ODA, as must the financing of vaccines.
2. **Provide adequate climate finance:** Make a fair contribution to the internationally agreed goal of providing US\$ 100 billion annually for climate change mitigation and adaptation in the Global South. Climate finance needs to be delivered grants; loans are counterproductive for this purpose. The EU should also support the introduction of an adequately resourced loss and damage mechanism to finance climate-related damage.
3. **Secure aid effectiveness:** Focus development cooperation on the creation of public goods and services that are universally accessible, in line with the “Leave no one Behind” principle of the 2030 Agenda. The trends toward privatizing development cooperation, through public-private partnerships or blended finance, have been an expensive and counterproductive aberration and should be reversed.
4. **Prevent debt crises:** The EU should support work for effective institutions to resolve debt crises. Unlike corporate insolvencies, there is as yet no orderly insolvency process for sovereign debtors in crises. A multilateral sovereign debt workout mechanism is a prerequisite for resolving crises in a speedy, fair and sustainable manner.
5. **Strengthen global tax justice:** International tax governance is also incomplete, which favours tax avoidance. The EU should advocate an international tax organization under the auspices of the United Nations, as well as a UN tax convention with a broad mandate to reach international agreements against tax evasion and harmful tax competition.
6. **Promote fair corporate taxation:** Transnational corporations in particular pay too little tax on their economic activities in the global South. The EU should work to ensure that existing OECD agreements on corporate taxation are redrafted so that taxation rights are distributed more fairly and loopholes are closed. Bilateral tax treaties of EU member states with countries of the Global South must also be made fairer.
7. **Repurpose IMF special drawing rights:** IMF rules allow for a new allocation of special drawing rights in 2022, which the EU should support. National and EU rules on the use of SDRs must be reformed so that the portion of SDRs held by EU Member States can be repurposed for development and climate financing in the global South.
8. **Secure UN funding:** International organizations such as the WHO lack funding to carry out their missions. The EU and its Member States must do its part to ensure steady, reliable and adequate funding for international organizations, especially through core funding that can be used flexibly.
9. **Make the most of EU and G7/G20 presidencies:** EU Member States holding the EU or G7/G20 presidencies should put FfD issues prominently on the agenda, without undermining consensus-building in the inclusive format of the UN. Presidencies offer an opportunity to champion new initiatives. At the same time, they carry the responsibility to implement existing agreements.
10. **Mandate a Monterrey+20 FfD Conference:** More up-to-date and ambitious multilateral agreements are needed in response to the COVID-19 and in light of the implementation backlog on the SDGs. European countries should position themselves as multilateral champions and advocate for the fourth International Conference on Financing for Development (Monterrey+20) to be convened as soon as possible and given a strong mandate.

Current challenges in financing for development

The financing needs of sustainable development are enormous. The 2030 Agenda for Sustainable Development, which is the most comprehensive UN development agenda to date combining numerous economic, social and environmental development goals, needs to be comprehensively implemented. To this end, substantial funds must be raised from public and private sources and deployed in a targeted manner.

Due to the global recession caused by the COVID-19, the SDG funding gap for the remaining decade of the SDGs has grown even larger, to US\$ 4.2 trillion per year, according to the OECD.¹ Even before the crisis, the funding gap for the SDGs in the Global South was estimated by the UN to be US\$ 2.5 trillion annually.²

The UN's FfD process seeks to mobilize various sources of finance primarily for countries of the global South. Since Monterrey, it takes a holistic approach to development finance: It looks at all potential sources of funding, domestic as well as foreign, and public as well as private. The key categories are:

- » Taxes and other government revenues of developing countries
- » Investment by private actors, both domestic and foreign
- » Export revenues from foreign trade
- » Public development finance (ODA) and climate finance
- » Debt relief, to free up domestic resources
- » Innovative financing instruments of all kinds.

To this end, the necessary structural reforms are discussed, including those of the international financial and trade architecture.

In terms of volume, different sources of finance vary in importance (see Table 1). However, not all

sources of finance are equally suitable for all SDGs. For example, while private investment, if properly regulated, can certainly contribute to the promotion of inclusive industrialization (SDG 9) and to ending poverty (SDG 1) through more and better jobs (SDG 8), more public funding from both domestic and international sources is required for the creation of universally accessible education (SDG 3) and health (SDG 4) systems.³

Thus, the different sources of finance can hardly be substituted. Achieving the SDGs will require more and, more progressively collected, domestic tax revenues. It requires more and more effective ODA, and more private resources from a variety of sources, ranging from foreign direct investment to migrants' remittances. It is also important that the appropriate institutions exist at the national and international levels to mobilize these resources sufficiently, distribute them fairly, and use them effectively.

Table 1:
Types and volumes of financial sources

Financial revenue	Volume in billions of US\$ 2020
Tax revenues of LIC and MIC	4.859
Official Development Assistance by DAC members	161
Net debt flows to LIC/MIC	435
of which: multilateral creditors	117
of which: private bondholders	280
Net equity flows to LIC/MIC	473
of which: direct investment	435
of which: portfolio investment	39
Remittances to LIC/MIC	540
Tax dodging (profit shifting) by transnational corporations	-500

Sources: World Bank, OECD-DAC, und UNU-WIDER; Data for 2020, except tax revenue for 2018

1 <https://www.oecd.org/newsroom/covid-19-crisis-threatens-sustainable-development-goals-financing.htm>

2 <https://unctad.org/press-material/developing-countries-face-25-trillion-annual-investment-gap-key-sustainable>

3 Cf. also the distinction between SDG-related investment and expenditure needs by UNCTAD in: https://unctad.org/system/files/official-document/ldc2021_en.pdf, p. 95

Taxes and other government revenues

A key source of finance for development is tax revenue and other government revenue within the countries of the global South. In most countries, this is the quantitatively most significant and qualitatively most appropriate source of financing for public goods. However, poorer countries inevitably have lower tax revenues than richer countries, since a country's economic strength is the decisive factor in determining how much tax can be collected.

However, developing countries also have statistically significantly lower tax-to-GDP ratios, i.e. low tax revenues in relation to economic output. While in developed countries,⁴ the average tax revenue is almost 25 percent of GNP, the ratio for LDCs is barely half of that. If levies for the welfare system are included, rich countries reach a ratio of 40 percent, LDCs only 20 percent.

There are many reasons for this: of course, the tax base is inevitably low in countries where a large proportion of people live in poverty and economic strength is weak. In countries of the global South, the informal economy is prevalent, and difficult to tax. Tax administrations are also weak, in part because public sector salaries are not competitive. Tax avoidance and evasion cause severe loss of important revenue. Last but not least, developing countries have even greater problems taxing cross-border economic activities, for example those of transnational corporations. International tax rules are patchy and, where they exist, often designed to the disadvantage of developing countries.

All of these issues are part of the FfD agenda. A disputed question in FfD negotiations is what weight to give to local deficiencies in tax collecting capa-

city, and what weight to give deficiencies in the international tax system. Rich countries tend to emphasize capacity deficiencies in the global South. The FfD process has therefore produced a number of initiatives aimed at strengthening tax administrations and tax systems in developing countries. Among them is the Addis Tax Initiative, which particularly coordinates technical cooperation in the area of capacity building.

Developing countries, on the other hand, emphasize the aspect that they suffer from tax dodging and capital flight abroad, are essentially bled dry by tax-related illicit financial flows (IFF).⁵ Civil society initiatives from the global South, such as the "Stop the Bleeding" campaign of Tax Justice Network Africa, also scandalize these outflows.⁶

In parallel to the FfD process, a UN expert panel recently addressed the issue of IFFs. The High-Level Panel on Financial Integrity, Accountability and Transparency (FACTI) reiterated that 7 trillion US dollars in private assets are deposited in tax havens, thus evading taxation. More than US\$ 500 billion are lost every year as a result of profit shifting by transnational corporations.⁷

In their 14-point plan, the experts recommend, among other things, that the international tax system be completed by a UN tax convention.⁸ At the Addis summit in 2015, the upgrading of the existing UN Tax Committee was already the central issue of contention, which almost led to the breakdown of negotiations. The task now is to follow up the Commission's recommendations with political action.

Official development assistance and climate financing

More than 50 years ago, rich countries already committed to providing funds for official development assistance (ODA) amounting to 0.7 percent of their GNI each year.⁹ As Least Developed Coun-

tries (LDCs) are particularly dependent on financial transfers from ODA, a separate target of 0.15–0.20 percent was agreed for them. De facto, the donor community united in the OECD Development

4 For country categories according to UN classification, see: https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/WESP2021_ANNEX.pdf

5 Illicit financial flows are cross-border financial transactions linked to corruption, money laundering, tax evasion and terrorist financing.

6 <https://stopthebleedingafrica.org/>

7 FACTI Panel Interim Report, S. V; https://uploads-ssl.webflow.com/5e0bd9edab846816e263d633/5f7f44f76cf2f11732c2b5f0_FACTI_Interim_Report_final_rev.pdf

8 https://uploads-ssl.webflow.com/5e0bd9edab846816e263d633/603560520c476959ea33b17a_FACTI_Report_ExecSum.pdf

9 <https://www.oxfam.org/en/research/50-years-broken-promises>

Assistance Committee (DAC) provides 0.32 percent of its GNI annually, less than half the amount.

The particular benefit of ODA as a source of financing is that, unlike domestic tax revenues, it represents a financial transfer from rich to poor countries, thus addressing inequality between countries. Unlike private investment, it has no direct commercial intent associated with it, and at least the portion that is given as grants does not have to be repaid. Hence its relevance for the financing of public goods, especially if they have a high share of foreign exchange costs.

The 19 EU members of the DAC provided US\$ 72.7 billion in ODA in 2020, an amount representing 0.5 percent of their GNI. Only four EU Member States met or exceeded the 0.7 target. ODA-spending by the EU institutions was also on the rise during the COVID-19 crisis, but mainly due to a massive increase in loans, which might lead to debt sustainability issues in partner countries in the coming years. Total ODA reached US\$ 161.2 billion in 2020. The OECD Secretary-General criticized: “Governments globally have provided 16 trillion dollars’ worth of COVID stimulus measures yet we have only mobilised 1% of this amount to help developing countries cope with a crisis that is unprecedented in our lifetimes.”¹⁰

As an indicator of financial transfers, ODA is of limited value, because even items such as debt relief, expenditure for students from developing countries in donor countries, or for refugees in their first year of residence count as ODA. In this context, NGOs criticize the inflation of ODA figures on the part of donors (so-called “phantom aid”), which conceals the fact that they are not fulfilling their international obligations and are thus also not fulfilling their co-responsibility for the successful implementation of the 2030 Agenda in the global South.

The trend is toward softening rather than tightening ODA rules: The OECD has recently developed a method for Total Official Support for Sustainable Development (TOSSD), which also allows numerous other payment flows to be taken into account. The developing countries in the FfD process are therefore sceptical about introducing TOSSD as a new metric to measure donor efforts.

In fact, there is a need for international public funds beyond traditional development cooperation, especially in the area of climate financing. As early as 2009, rich countries pledged to provide US\$ 100 billion annually from 2020 to help financing climate change mitigation and adaptation in the global South. This target was not met either, which recently caused political tensions at the UN climate summit in Glasgow.¹¹ Moreover, small island states and other extremely vulnerable countries in particular are demanding that a financial mechanism for loss and damage caused by climate change finally be established. In Glasgow, only the initiation of a dialogue process was agreed.

The disadvantages of ODA are that developing countries have little control over how it is used and that transaction costs are high because a lot of money remains in the system, is financing the so-called aid industry. In addition to quantity, the quality and effectiveness of international development cooperation is therefore also an ongoing topic on the FfD agenda.

Policy processes on aid effectiveness originally emerged from the FfD process, but are now being advanced in parallel in other forums, most notably the OECD Development Assistance Committee (DAC), the Global Partnership for Effective Development Cooperation (GPEDC) and the UN Development Cooperation Forum (DCF). Since then, they have been running in an interplay between the political forums.

Ongoing issues here are whether development finance is implemented through parallel donor structures or provided as budget support through partner countries’ own systems. Tying issues also play a role, i.e., that some donors tie funds to the condition that contracts under the projects flow to companies from their own countries, which drives up costs and undermines capacity building in partner countries.¹²

Last but not least, the choice of the best modality is a contentious issue: Especially on the part of the EU and some of its members, there have recently been calls to link development cooperation and private investment more closely by using ODA funds via blended financing instruments to subsidize private

¹⁰ <https://www.oecd.org/dac/financing-sustainable-development/development-finance-data/ODA-2020-detailed-summary.pdf>

¹¹ <https://www.other-news.info/fixing-climate-finance/>

¹² A good overview of the diversity of topics is provided by the OECD-DAC agreements: <https://www.oecd.org/dac/effectiveness/parisdeclarationandaccraagendaforaction.htm>

investment or for public-private partnerships. This is a trend that has been met with resistance, particularly from NGOs, as it inevitably involves the

commodification and financialization of goods and services that are relevant to basic rights such as education and health.

Private investment

In early years of the FfD process, the emphasis on private resources was on promoting foreign direct investment (FDI). FDI could contribute particularly to economic development if it was accompanied by job creation and the transfer of knowledge and technology.

Since the Addis Ababa Action Agenda was agreed in 2015, private sources of funds have been given an even greater role. The adoption of the 2030 Agenda as the most comprehensive development agenda to date was crucial here. Particularly on the part of the international financial institutions, it was argued that the 2030 Agenda could not be financed with public funds alone. The billions in public funds should therefore be cleverly used to mobilize trillions in private funds. Shortly before the Addis summit, the IFIs went with a position paper that prominently introduced the private sector focus into the discourse under the title “from billions to trillions.”¹³

Also, the Addis conference took place at the height of the austerity phase following the global financial crisis. That is, at a time when public spending policies were constrained by debt brakes such as the EU’s fiscal compact, while massive liquidity was available in private financial markets through loose monetary policies of public central banks. Here, it was natural to try to harness some of the massive US\$ 50 trillion managed by the 300 largest investment firms alone for SDG financing.¹⁴

In practice, this means that since then, the FfD process has been used to try to bring investors into developing countries, and there into SDG-relevant sectors. On the other hand, attempts are being made to package the SDGs in attractive ‘bankable projects’ in order to make them more palatable

to investors. In this context, the UN has also set up new formats such as the SDG Investment Fair, which takes place in parallel with the ECOSOC FfD Forum.¹⁵

Closely related is the work on sustainability standards, or taxonomies, to determine which investments can be considered sustainable. Investor demand for products that meet sustainability criteria has skyrocketed in recent years. Investment firms are responding by offering appropriate investment funds. In the absence of binding sustainability standards, so-called greenwashing or socialwashing is an issue. For investors and customers alike, it is often not clear how sustainable the product really is. The UN is working on how to define, measure, and certify “sustainable investments” with transparent criteria to separate the wheat from the chaff.¹⁶ The EU is also developing such taxonomies in its parallel process on Sustainable Finance, and has, among other things, classified nuclear power and gas as sustainable.¹⁷

In practice, much remains to be done to harness private capital for SDG financing and to make corporate activity sustainable and in line with human rights. First and foremost, this includes introducing binding human rights and environmental due diligence requirements for companies. The trend in foreign direct investment is currently downward, and its volume has almost halved since 2015.¹⁸ LDCs are almost completely bypassed by such investments, with the exception of the environmentally and socially problematic extractive sector. According to UNCTAD, private direct investment in SDG-relevant sectors initially increased slightly since 2015, but the COVID-19 crisis has led to a massive slump that has more than wiped out the gains of previous years.¹⁹

13 <https://pubdocs.worldbank.org/en/622841485963735448/DC2015-0002-E-FinancingforDevelopment.pdf>

14 <https://www.sc.com/us/2020/11/10/the-50-trillion-question-un-sustainable-development-goals-face-critical-investment-shortfall-standard-chartered-research-finds/>

15 <https://www.un.org/development/desa/financing/events/2021-sdg-investment-fair-13-14-april>

16 For an overview of recent UN initiatives in the area, see: <https://www.undp.org/blog/investment-sustainable-recovery>

17 https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/overview-sustainable-finance_en

18 https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR_2021.pdf, p. 63

19 https://unctad.org/system/files/official-document/diaemisc2021d3_en_2.pdf

More and more developing countries have access to international capital markets, but market interest rates border on usurious and are prohibitively high. While the German government can finance Germany's public debt at interest rates near zero, Ghana, for example, has to pay private investors a current yield on US\$ bonds of currently over 10 percent.²⁰ Debt from expensive loans has now driven many countries into debt crisis. For many countries, net transfers through external debt are now negative. These countries transfer more resources to creditors through debt service than they receive through new loans. Private creditors have vehemently refused to participate in debt relief initiatives for the poorest countries during the COVID-19 crisis.

NGOs also point to numerous failed cases of public-private partnerships (PPPs) and criticize the trend of financing essential infrastructure through PPPs as an aberration that costs public budgets dearly and excludes poor people from access to essential services. The Inter-Agency Task Force on Financing for Development, which advises the FfD process, notes that private companies must do their own homework. For example, it says the corporate sector's CO₂ emissions increased by 10 percent between 2015 and 2019, their tax avoidance through profit shifting to tax havens costs public coffers US\$ 500 billion annually, their materials recycling makes little progress, and the gender pay gap in the private sector remains at a global average of 16 percent.²¹

Reform of international institutions and systemic issues

A very central role in the FfD process is played by the systemic issues of the international financial and trade architecture. The importance of this becomes clear when one considers that UN development agendas have been set back by two severe global economic crises in the last two decades, the global financial crisis beginning in 2008 and the global COVID-19 crisis beginning in 2020.

The range of systemic issues is broad. For example, a recurring issue is the question of effective institutions to resolve debt crises. The Monterrey Conference had already called for an "international debt workout mechanism, in the appropriate forums."²² This should have been based at the IMF, but has so far failed to find a majority on its board, mainly due to a U.S. veto.

The creation of better institutions for fiscal cooperation has also been on the FfD agenda since the beginning. The expert panel chaired by former Mexican President Ernesto Zedillo that advised the Monterrey Conference already called for the creation of an International Tax Organization (ITO) to put an end to ruinous tax competition between different nations and set global rules for corporate taxation.²³ The upgrading of the existing UN Tax Committee was also the dominant topic at the Addis

summit. In the absence of an agreement, there is still no effective institution here.²⁴ Tax evasion and avoidance continue to rip large gaps in government coffers in the South and North and prevent sufficient public funds from being made available for SDG financing.

Systemic issues, of course, include financial regulation. This is an issue that has high relevance in view of speculative bubbles and volatility of capital flows, but no longer receives the political attention it did at the height of the global financial crisis. There is still a great need for action on sensible capital controls against financial market volatility, measures to prevent banking crises such as increased capital adequacy requirements or stronger regulation of so-called shadow banks, or on curbing food speculation.

Last but not least, systemic issues also include the creation of innovative financing instruments. These include the recent issuance of Special Drawing Rights (SDRs), a global reserve currency. In August 2021, the IMF distributed US\$ 650 billion worth of SDRs to its member countries. However, the majority went to the richest countries, which had the least need for additional liquidity. If appropriately repurposed, SDRs could be harnessed for

20 <https://cbonds.com/indexes/Cbonds-Ghana-Sovereign-Eurobond-YTM-Index/>

21 https://developmentfinance.un.org/sites/developmentfinance.un.org/files/FSDR_2021.pdf, p. 61

22 Monterrey Consensus, para 60

23 <https://www2.weed-online.org/ffd/pdf/Zedillo-Report.pdf>

24 <https://www.globalpolicy.org/de/publication/die-global-governance-luecke-im-steuerbereich-schliessen-plaedoyer-fuer-eine>

SDG financing in the Global South and fill at least part of the SDG financing gap.²⁵ Beyond SDRs, innovative financing instruments also include the in-

roduction of a global financial transaction tax and the discussion of environmental taxes and levies for the use of global commons.

Financing for Development – The Process at the United Nations

Structure and tasks of the UN FfD Process

Since its inception in Monterrey in 2002, the UN Financing for Development process has addressed a wide range of financial sources and institutions that can be used to finance development. A high value is placed on creating or reforming the necessary international institutions to harness the various resources for development, in a sustainable and crisis-resilient manner. Developing countries in particular value the discussion of structural reforms in the inclusive format of the UN, in which all states have a place at the negotiating table. The UN's Financing for Sustainable Development Office, located at the Department of Economic and Social Affairs (UN DESA) at UN Headquarters in New York, serves as the secretariat for the process.

The Financing for Development (FfD) process is the only process that the UN formally organizes jointly with its specialized agencies, the World Bank and the International Monetary Fund. The aim is to closely involve these institutions, which are important for the implementation of financing aspects, from the outset. The IMF in particular plays a central role in the international financial architecture in preventing and responding to financial crises. A “Dialogue with the Bretton Woods Institutions” is part of the agenda of each of the annual FfD forums. Timing-wise, FfD forums are also deliberately held in New York in April, immediately following the Spring Meetings of IMF and World Bank. This serves policy coordination purposes and creates synergy for delegations traveling from abroad.

A challenge for the FfD process is that central responsibilities for systemic issues are located in institutions that are outside the UN (such as the World Trade Organization, the Financial Stability Board, and the Basel Committee for Banking Supervision) or, like the IMF and World Bank, are formally specialized agencies of the UN but have de facto

distanced themselves from the UN system and have separate governance structures. Thus, the FfD process can often only recommend actions that would have to be carried out by other organizations over which the UN has no direct control.

At the same time, the policy dialogue in the FfD process is particularly central for developing countries. This is because, according to UN regulations, each country has a seat and a vote there. In organizations such as the G7, G20 or OECD, most developing countries are not represented at all, and in the IMF and World Bank, voting rights are not based on the principle of state equality but are weighted according to economic power, which marginalizes economically weak countries.

From the outset, the aim of the FfD process was to underpin the UN's development and sustainability goals financially and to advance necessary institutional reforms of the international financial architecture, without which these goals cannot be achieved. However, the FfD conferences should not be misunderstood as fundraising events. They are primarily about advancing necessary global structural reforms through multilateral cooperation. Since the MDGs were replaced by the SDGs, the FfD process has run parallel to the 2030 Agenda for Sustainable Development, and is one of its most channels to create the means of implementation.

The 2002 Monterrey Conference was only the beginning of what is perhaps the United Nations' most important policy process on economic issues, and it is far from complete. Monterrey was followed by two more International Conferences on Financing for Development, in Doha (2008) and Addis Ababa (2015). The agreements reached there, the Doha Declaration and the Addis Ababa Action Agenda, have since complemented the Monterrey Consensus. Since 2015, the Financing for Develop-

²⁵ https://www.globalpolicy.org/sites/default/files/download/Briefing_1021_IMF_Special_Drawing%20_Rights%20.pdf

ment Forum has been organized annually in April at UN Headquarters in New York to further develop the FfD agenda and accelerate the implementation of the political agreements.

All three previous World Conferences were shaped by their respective historical contexts and addressed the challenges of their time.

Monterrey 2002 – The Monterrey Consensus

The first International Conference on Financing for Development in Monterrey marked the conclusion of the series of thematic world conferences held by the UN in the 1990s, taking advantage of the positive multilateral climate after the end of the Cold War. The Conference on Environment and Development in 1992, the World Summit for Social Development and the World Conference on Women in 1995, and finally the Millennium Conference that year had adopted ambitious development plans. But implementation made little progress, partly because funding was not secured. The Asian crisis of 1997 made it clear how little crisis-proof the system was and how quickly a financial crisis can undo tentative development successes.

The Monterrey Conference therefore focused on the financial issues, established what it called the holistic approach to development finance, which dealt comprehensively with all potential sources and institutions that could be used to finance development. It grouped the sources of finance into five different categories. Namely, domestic resources, foreign private investment, export revenues from

global trade, international development cooperation funds (ODA), and ultimately external debt. Whereby, given the ongoing Third World debt crisis, the latter aspect was addressed from the perspective of how debt relief can free up funds.

The sixth area on international financial and trade architecture dealt with reforming or creating the necessary multilateral institutions so that the above sources of finance can work effectively for development. Essentially, this structure from the Monterrey Consensus, the final document of the conference, has been maintained in the FfD process to date.

The Monterrey Consensus contains numerous international agreements on development finance in 73 paragraphs. It has also provided numerous impetuses beyond the UN, such as the aid effectiveness process at the OECD-DAC, which led to the Paris Declaration on Aid Effectiveness in 2005,²⁶ and the Multilateral Debt Relief Initiative of the IMF, World Bank and other development banks in the same year.²⁷

Doha 2008 – The Doha Declaration

The second International Conference on Financing for Development was held in the Qatari capital Doha in 2008. It was heavily influenced by the outbreak of the global financial crisis. Shortly before the conference, the U.S. investment bank Lehman Brothers had declared bankruptcy, sending shock waves through what was then an extremely fragile world financial system. The Doha Declaration broadened the FfD agenda by adding another area, climate finance. A logical decision, given the increasing relevance of this aspect in international relations.

The Doha Summit was influenced by the fact that shortly before, and in light of the financial crisis, the G20 was upgraded to a high-level policy forum at the level of heads of state and government, which began to compete with the UN and other existing multilateral institutions in global norm-setting. The question of what policy-making power lies with the inclusive format of the “G193” – that is, with the UN, with its universal membership consisting of 193 states – and what policy issues are dealt with in more exclusive but democratically less legitimate formats such as the G20 has been an ongoing theme

²⁶ <https://www.oecd.org/dac/effectiveness/34428351.pdf>

²⁷ <https://www.imf.org/external/np/exr/mdri/eng/index.htm>

in global governance ever since. Of course, it is the 173 countries that are not part of the G20 that have a preference for UN processes, including the FfD process. These countries not only form the major-

ity of states, but also include the vast majority of developing and emerging countries, which see their interests and needs adequately taken into account only at the UN.

Addis Ababa 2015 – Addis Ababa Action Agenda

The year 2015 was a significant three-summit year for the UN: the Sustainable Development Summit in September adopted the 2030 Agenda and with it the SDGs. The UN Climate Summit in France in December set new climate targets and agreements in the Paris Climate Agreement.

The Third International Conference on Financing for Development was the first of the three summits. It took place in July 2015 in Addis Ababa. Developing countries in particular had stressed that there was little point in setting development or climate targets without first agreeing on ways to achieve them. Quantitatively sufficient and qualitatively effective financing for development is a very central one of these ways, referred to in the 2030 Agenda as Means of Implementation and operationalized in SDG 17.²⁸

Indeed, the Addis Summit adopted a comprehensive action agenda. However, much of it remained

vague and non-binding. Critics saw this as a false start for the 2030 Agenda, whose implementation is in fact insufficient, having reached almost the half-way point.²⁹

There was, however, incremental progress. For example, commitments related to a further upgrading of the UN Tax Committee, new institutions for infrastructure and technology financing in the global South, agreements to reduce environmentally harmful investments, and the reaffirmation of international agreements on public development and climate financing.³⁰ A new planning tool – the Integrated National Financing Frameworks (INFFs) – was suggested to help policymakers at home and abroad mobilize and target financing toward the 2030 Agenda.³¹ In addition, the summit was used to announce initiatives by various coalitions of the willing. One example is the Addis Tax Initiative, which helps mobilize tax revenues through capacity building.³²

The ECOSOC Financing for Development Forums

The very fact that sufficient financing for the 2030 Agenda remains wishful thinking after the Addis Ababa summit places great responsibility on the follow-up process. The annual milestone of this process is the Financing for Development (FfD) Forum. The FfD Forum is one of the three major annual forums of the United Nations Economic and Social Council.³³ It takes place every April as a roughly week-long event at UN headquarters in New York. In addition to the main strand of policy dialogue in the UN's main plenary hall, usually at ministerial level, a number of side-events are held

during the FfD Forum to introduce new initiatives or review old ones.³⁴

The FfD forums result in an outcome document. A special feature of the FfD process is that it is a consensus-based process, i.e. broad agreement is necessary in all aspects. Usually, UN resolutions can also be adopted by simple majority vote. A negative side effect is that even the objection of a single state can lead to the halting of a policy innovation. Accordingly, language and commitments in the outcome documents are often weak and vague.

28 <https://sdgs.un.org/goals/goal17>

29 <https://www.2030agenda.de/de/zwischenbilanz>

30 <https://www.un.org/esa/ffd/ffd3/press-release/countries-reach-historic-agreement.html>

31 <https://inff.org/>

32 <https://www.addistaxinitiative.net/>

33 The other two are the High-Level Political Forum on Sustainable Development (HLPF), which deals with the implementation of the 2030 Agenda, and the Development Cooperation Forum, which focuses on development cooperation issues in a narrower sense.

34 <https://www.un.org/development/desa/financing/what-we-do/ECOSOC/financing-development-forum/FFD-forum-home>

The Friends of Monterrey

The FfD process – like many other UN processes – is supported by a group of open-minded member states. The group of the so-called “Friends of Monterrey” consists mainly of UN ambassadors. Germany, Mexico and Switzerland share the chairmanship and also do most of the planning and logistics for the group. The annual highlight of the Friends of Monterrey is a conference or retreat, usually in Mexico, where the FfD process once began its career. The retreat, a month before the actual forum, is a kind of exploratory meeting in which key UN member states check where progress can be made at the upcoming FfD forum. It is designed as a multi-stakeholder event, so in addition to government representatives, staff from international organizations, non-governmental organizations, academics and parliamentarians can also participate.

The IATF and the Financing for Sustainable Development Report

Since the Addis Ababa Summit, the FfD process has been supported by the Inter-Agency Task Force on Financing for Development (IATF). The IATF unites experts from numerous UN entities with those from the World Bank, IMF, WTO and OECD in a joint research group.³⁵ The main task of the IATF is to publish the annual Financing for Sustainable Development Report. This has become one of the most important sources of data, facts and – to a lesser extent – policy recommendations on FfD issues.

However, NGOs criticize the IATF Report for not being truly independent, as the issuing institutions have their own institutional interests and are deeply involved in the FfD business. Also, the policy recommendations are often weak, as they represent an often minimal consensus of the institutions involved. Thus, the IATF process cannot replace independent research or the political dialogue at the actual FfD forum, but it does create a substantial data base for their deliberation. The results and data from the IATF report can also be useful for policy-making at the national level.

The UN Special Process Financing for Development in the Era of COVID-19 and Beyond.

The COVID-19 crisis posed unexpected challenges to the FfD agenda. The UN responded with the special process titled, Financing for Development in the Era of COVID-19 and Beyond, led by UN Secretary-General Antonio Guterres himself, and co-chaired by the heads of government of Jamaica and Canada. In 2020, three high-level meetings were held virtually due to the pandemic – two at the level of heads of state and government, one at the level of finance ministers. The latter was a first for the UN, as finance ministers usually feel more at home under the umbrella of the IMF, while representation at the UN is usually left to foreign or development ministers.

The process resulted in the September 2020 release of a 129-page catalogue of more than 200 policy recommendations for various areas of the FfD agenda, the menu of options.³⁶ Also unusual for the UN, instead of seeking consensus from the outset, which would have weakened and emptied the catalogue of policy recommendations, it worked with aggregation, juxtaposing the proposals of participating states and institutions. As a result, the document has become probably the richest collection of policy options on development finance issues ever. The side effect, however, is that with a few exceptions, such as the SDR allocation in August 2021, most of them await practical implementation for lack of political majorities.

35 For a complete list of members, see <https://developmentfinance.un.org/inter-agency-task-force-members>

36 https://www.un.org/sites/un2.un.org/files/financing_for_development_covid19_part_ii_hosg.pdf

Monterrey+20: The next steps in the FfD agenda

The COVID-19 crisis has also shaken up the FfD process. The last two forums took place only virtually. In 2022, the cycle will return to mostly normal. In early March, with the publication of the new IATF report, negotiations on the outcome document will begin. In mid-March, the Friends of Monterrey retreat will take place in Mexico, and the actual FfD Forum will be held in New York from April 25–28, 2022.

But the next FfD Summit is also long overdue. Actually, these should be held every 5 years. The COVID-19 crisis has made it more important than ever to strengthen and modify international agreements on development finance, because the crisis was a wake-up call in many ways. It has brought to light the shortcomings at both the national and international levels. In view of the simultaneous collapse of all pillars of development finance in the spring of 2020, and the setbacks to the 2030 Agenda that also resulted from this, issues such as crisis resilience have come back more strongly onto the agenda.

The central and very acute challenge is to also provide countries in the Global South with the fiscal space to respond to the COVID-19 crisis, while at

the same time financing sustainable development in line with the 2030 Agenda. The collective commitment of the EU to scale up to at least 0.7 percent of GNI and also increase climate financing is a first step. The introduction of an international sovereign insolvency regime would make it easier to resolve debt crises. EU Member States should also repurpose part of the IMF's special drawing rights, which lie idle on their central bank accounts, to countries in need. Developing countries should no longer be short-changed in the distribution of international taxation rights if they are to become less dependent on ODA.

It is important to reflect on the fact that the implementation of the 2030 Agenda was already off schedule before the COVID-19 crisis started. Inadequate resources for implementation, including those for development finance, have played a role in this since its inception in 2015. New international agreements on financing for development should therefore start with the ambition of aligning means and ends. The date of the next World Conference is expected to be set in a binding manner at the FfD Forum in April 2022. It will be referred to as the “Monterrey+20” summit by its many apologists.

Useful background information and resources

Addis Ababa Action Agenda

Outcome of the Third International Conference on Financing for Development in 2015

Doha Declaration

Outcome of the Second International Conference on Financing for Development in 2008

Monterrey Consensus

Outcome of the First International Conference on Financing for Development in 2002

Zedillo-Report

Recommendations of the 2002 High-Level Expert Commission

Financing for Sustainable Development Report 2021

Analysis and recommendations by experts of UN entities, jointly with IMF, OECD, World Bank and WTO.

FfD report of the UN Secretary-General

Official progress report of the UN Secretary-General, based on analysis of UN-Organisations

Outcome of the 2021 FfD-Forum

Latest outcome document of the annual ECOSOC FfD Forum

CSO letter on FfD to the ECOSOC President

Position of Civil Society Organizations for the 2022 Financing for Development Forum

UN FfD-Forum 2021 (GPF-Briefing)

Global Policy Forum analysis of the 2021 FfD forum

UN process Financing for Development in the Era of COVID-19 and Beyond (GPF-Briefing)

Global Policy Forum analysis of the UN special process

EU FfD Accountability Report

Official FfD accountability report, based on, based on Member State self-reporting.

Websites

Financing for Sustainable Development Office

Secretariat of the FfD Forum. With all information on the FfD process and relevant documents.

UN process Financing for Development in the Era of COVID-19 and Beyond

UN Secretary General's sub-site with documentation of the UN Special Process its high-level events since 2020

Civil Society Financing for Development Group

Forum of civil society groups engaged on the topic.

Global Policy Forum

GPF's FfD coverage [German](#) and [English](#)

Imprint

Monterrey+20

A primer on the UN's Financing for Development process

Published by:

Global Policy Forum Europe e.V.
Königstr. 37a
53115 Bonn, Germany
europe@globalpolicy.org
www.globalpolicy.org
Contact: Bodo Ellmers

Bischöfliches Hilfswerk MISEREOR
Mozartstr. 9
52064 Aachen, Germany
info@misereor.de
www.misereor.de
Contact: Klaus Schilder

Author: Bodo Ellmers

Layout: www.kalinski.media

Bonn, March 2022

This briefing paper has been written by Bodo Ellmers. The author would like to thank Wolfgang Obenland, Klaus Schilder, and Ute Straub for useful comments on an earlier German version. Special thanks to Elena Marmo for editing the English version.

This briefing paper is part of the project "Sustainable Financing for Development in the (Post-)Covid Era" of 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).



Global Policy Forum Europe e.V. is solely responsible for the content of this publication. The positions taken do not necessarily reflect the position of GIZ and BMZ.