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Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia
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Item 5 of the provisional agenda

The global financing for development landscape: standing issues and emerging challenges

Summary

The international community has long emphasized that equitable access to financing is crucial to advance sustainable development, but there are still significant challenges in mobilizing sufficient financing. Revamping development cooperation and its measurement and reforming the international financial architecture, health and trade systems are key to ensure progress towards the Sustainable Development Goals (SDGs). Combating illicit financial flows was identified as another important aspect of the financing agenda, hence the need to eliminate tax and trade-based illicit financial flows. Reducing transaction costs of remittances, investing in sustainable agriculture and food systems, addressing the rise in global debt stocks, and promoting transparency in credit-rating agencies' assessments were also identified as steps to create fiscal space for the SDG Stimulus Plan and halt the decline in the Human Development Index, which has fallen globally for two years in a row.

To this end, a fourth international conference on financing for development in 2025 is currently considered to assess progress and address new financing challenges. This conference would serve as a platform to evaluate the implementation of previous agreements, such as the Monterrey Consensus, Doha Declaration and the Addis Ababa Action Agenda, and identify obstacles and initiatives to overcome them.

The present document highlights the main resolutions that have been adopted in the field of financing during the seventy-sixth and seventy-seventh sessions of the General Assembly and the associated voting patterns, including those of Arab member constituents. The document serves as a premise to converge Arab positions over the international financial systems, update the Arab position on financing for development and attend to emerging challenges. The Committee on Financing for Development in the States Members of the Economic and Social Commission for Western Asia is invited to review its contents and make comments thereon.

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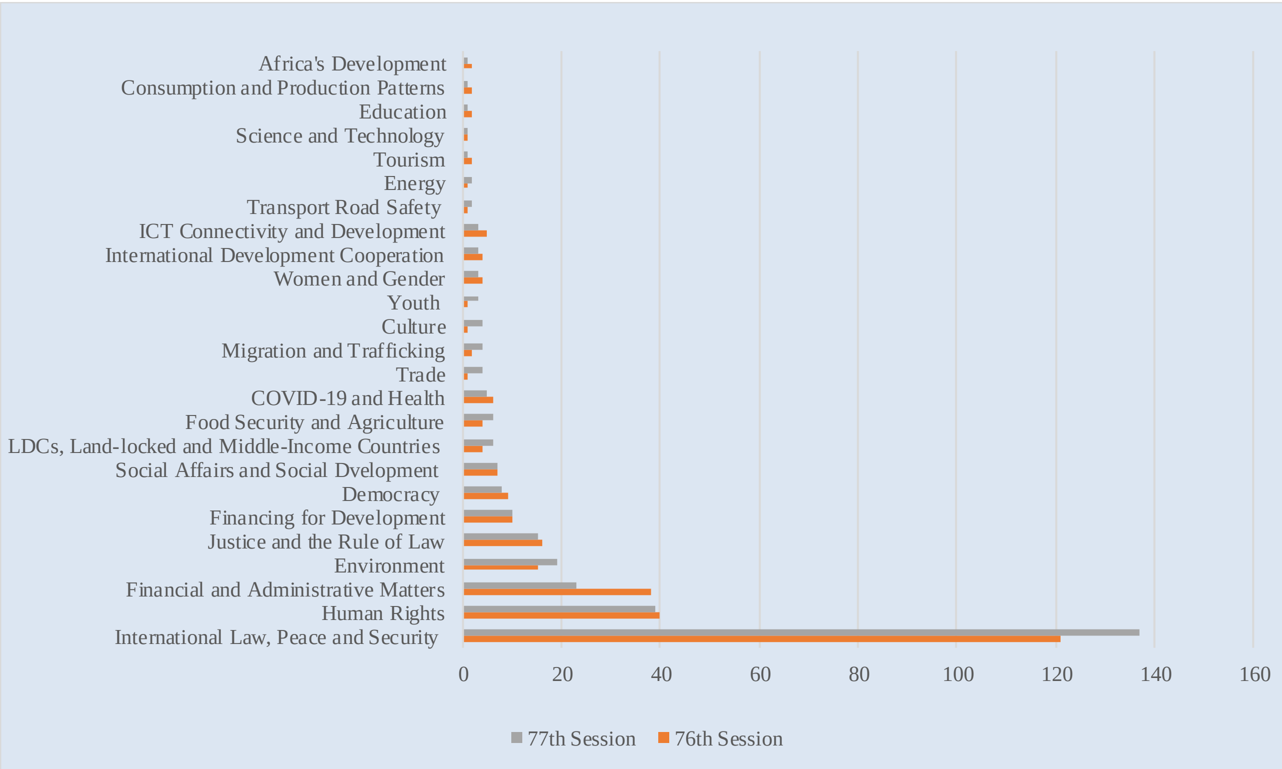
Introduction

1. The cost-of-living crisis, fuelled by the war in Ukraine, risks pushing millions more into poverty and hunger, reversing many achievements in advancing the Sustainable Development Goals (SDGs). Global temperatures are on track to rise by 2.8°C by the end of the century. Unsustainable debt burdens, soaring inflation and shrinking fiscal space are suppressing investments in the SDGs. The United Nations Secretary-General called upon the international community to safeguard food security for the most vulnerable, eliminate trade protectionism and export restrictions on food and medicines, inject liquidity to tackle debt overhangs, reverse the self-destructive course towards climate calamities, rescue the SDGs by implementing the SDG Stimulus Plan and reform the international financial architecture.

2. These issues and many others of concern to the Arab region, including follow-up to the resolutions adopted by the United Nations General Assembly, were the focus of deliberations at the 2023 SDG Summit and the action-oriented High-level Dialogue on Financing for Development that took place during the High-level Week of the seventy-eighth session of the General Assembly (figure 1). Many of the issues highlighted in this document may be submitted to the much anticipated fourth international conference on financing for development in 2025.

Figure 1. Resolutions of the General Assembly's seventy-sixth and seventy-seventh sessions



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I. Changing priorities: the global financing for development landscape

A. Highlights from the General Assembly's seventy-sixth and seventy-seventh sessions

3. In its resolution titled "*Role of the United Nations in promoting development in the context of globalization and interdependence*" (A/77/445/Add.1), the General Assembly noted with concern the uneven distribution of resources, which had exacerbated inequalities, and called for efforts to address systemic fragilities and strengthen the international financial system. It underscored that the mobilization of sufficient financing

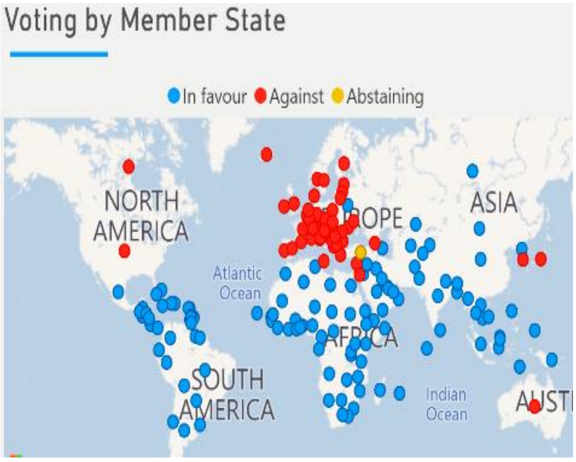
remained a major challenge, and that forestalling efforts on this front would further deepen existing inequalities.

4. The General Assembly also called for strengthening financing for development, including innovative financing, and development cooperation, and noted that bridging financing gaps required the reform of the international financial architecture, health and trade systems.

5. In its resolutions (A/76/532 and A/77/442), the General Assembly advocated the development of integrated national financing frameworks (INFFs) to support nationally owned sustainable development strategies, noting that those frameworks could support the alignment of a wide range of financing sources to advance the SDGs.

6. In its resolution titled "Promotion of international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development" (A/RES/76/196), the General Assembly emphasized the continued focus on illicit financial flows (IFFs) and acknowledged that combating IFFs required a range of actions to deter, detect, prevent and counter such flows in source, transit and destination countries to foster sustainable development. In its draft resolution titled "Towards a new international economic order" (A/77/445), the General Assembly called for the urgent adoption of measures to combat IFFs to enhance fiscal space for governments to finance the achievement of the 2030 Agenda for Sustainable Development. The resolution was adopted by majority with 123 countries in favour, including the majority of Arab countries (figure 2).

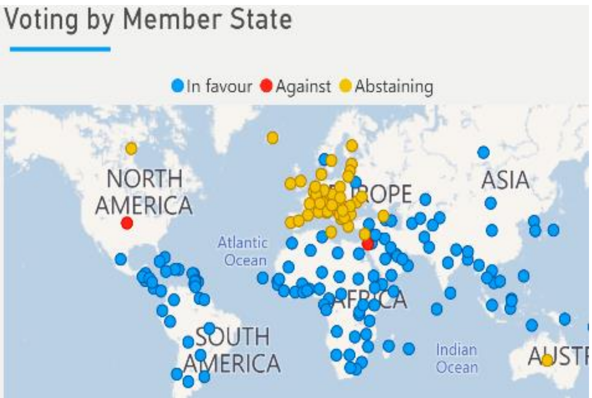
Figure 2. Voting by Member State



Source: Generated from https://www.un.org/dgacm/en/content/visualizations-and-machine-readability.

7. In its resolution titled "*Promoting investments for sustainable development*" (A/RES/76/197), the General Assembly recognized the role of foreign direct investment (FDI) and its different impacts on the SDGs. It called for strengthening the alignment of FDI with national development strategies and for developing tailored guidelines on how to attract long-term investments, guided by the 2030 Agenda for Sustainable Development. In its resolution (A/77/445/Add.1) however, the General Assembly noted that widespread financial deregulation had contributed to larger net capital outflows from developing countries to developed countries. The resolution was adopted by majority with 130 countries in favour, including the majority of Arab countries (figure 3).

Figure 3. Voting by Member State



Source: Generated from https://www.un.org/dgacm/en/content/visualizations-and-machine-readability.

8. In its resolution titled *"Financial inclusion for sustainable development"* (A/RES/76/195), the General Assembly urged for more efforts to reduce the transaction costs of migrant remittances. It enumerated the obstacles to the flow of remittances, such as the banks' withdrawal of services, and emphasized the need to expand access to and the volume of remittances through regulated and transparent channels and financial technology services to reduce remittance costs. In its resolutions A/RES/76/172 and A/77/445/Add.2, the General Assembly upheld the Global Compact for Safe, Orderly and Regular Migration, and called for the

promotion of safe and secure working environments for all workers, including migrant workers, and the development of methodologies for the collection of statistical data on international migration and the situation of migrants in origin, transit and destination.

9. In its resolution titled *"Commodities"* (A/RES/76/194), the General Assembly noted the uncertainty in commodity markets and called for the need to invest in sustainable agriculture and food systems. It cautioned against trade mispricing and stressed the importance of increasing efficiency, effectiveness and transparency in the management of public revenues derived from all commodities, and enhancing access to trade finance, given tightened access to all types of credit and debt sustainability.

10. In its resolution titled "*External debt sustainability and development*" (A/RES/76/193), the General Assembly expressed deep concern over the unprecedented rise in global debt stocks and cautioned against the rising private and public indebtedness. It emphasized that no single indicator should be used to make definitive judgments about a country's debt sustainability and called for timely, effective, comprehensive and durable solutions to the debt problems. It also noted that the Debt Service Suspension Initiative and the Common Framework for Debt Treatments needed to respond to the needs of countries not covered by those initiatives, including middle-income countries, and reaffirmed the urgency of dealing not only with liquidity but also solvency risks.

11. In its resolution titled "*International financial system and development* (A/RES/76/192), the General Assembly recognized the need to reduce mechanistic reliance on credit-rating agencies' assessments and supported greater transparency for evaluation standards of credit-rating agencies (figure 4). It also called upon multilateral development banks to provide sufficient concessional finance to developing countries to assist them in addressing debt vulnerabilities and making optimal use of their resources and balance sheets, and to mobilize private investment to provide innovative solutions to multidimensional development problems.

Figure 4. Voting by Member State

Source: Generated from https://www.un.org/dgacm/en/content/visualizations-and-machine-readability.

12. In the same resolution, the General Assembly called for further viable options for the voluntary channelling of special drawing rights (SDRs) to countries in need, and encouraged open and inclusive discussions to modernize the measurement of official development assistance. It also stressed the need to promote humanitarian assistance from relief to development (A/RES/76/128). In its resolution on financing for development (A/77/442), the General Assembly reiterated its call for the modernization of official development assistance measurement and the new measure of total official support for sustainable development.

13. In its resolution titled "*Unilateral economic measures as a means of political and economic coercion against developing countries*" (A/RES/76/191), the General Assembly called for the elimination of unilateral economic, financial or trade measures that were not authorized by relevant organs of the United Nations.

14. In its resolution titled "*International trade and development*" (A/RES/76/190), the General Assembly noted with concern the insufficient progress in multilateral trade negotiations, and emphasized the urgent need to combat protectionism in all its forms and to rectify any trade-distorting measures. It also stressed that special and differential treatment remained integral to the multilateral rules-based trading system, and emphasized the need to prevent trade restrictions and distortions in world agricultural markets. In tandem, the General

Assembly called through its resolution on *"The right to development"* (A/RES/76/163) for a successful, development-oriented outcome of the trade negotiations of the World Trade Organization (WTO) on the remaining issues of the Doha Development Round.

15. In its resolution titled *"Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development"* (A/77/442), the General Assembly decided to consider convening, in 2025, a fourth international conference on financing for development to assess the progress made in the implementation of the Monterrey Consensus, the Doha Declaration and the Addis Ababa Action Agenda, identifying obstacles and constraints encountered in the achievement of the goals and objectives agreed therein, as well as actions and initiatives to overcome those constraints, and to address new and emerging issues.

B. Highlights from the 2023 Economic and Social Council Financing for Development Forum follow-up

16. The Economic and Social Council (ECOSOC) Financing for Development Forum recognized that unless swift action was taken, financing divides would become development divides. The international financial architecture was falling short of addressing challenges faced by developing countries such as debt, financing gaps and climate change. The need to reform international financial institutions to better reflect economic realities was highlighted. Action was also requested to address short-termism and lack of alignment of private investment with the SDGs, as well as address the obstacles faced to mobilize private sector financing, noting that public finance played an important catalytic role in incentivizing private investments.

17. The ECOSOC considered that it was imperative to strengthen the mobilization of domestic resources, which were first and foremost generated by economic growth, supported by an enabling environment at all levels. In this context, the fiscal system for reducing inequalities and international tax cooperation must be inclusive and effective, considering the needs and capacities of developing countries. A multilateral framework or instrument and a United Nations intergovernmental body could help realize this. The ECOSOC underscored response to IFFs, which required multiple solutions and partnerships at the international level, stressing the importance of the timely adoption of tools that could assist all countries in preventing and combatting IFFs.

18. Concerning international private finance, the ECOSOC recalled the need to ensure and improve micro-, small- and medium-sized enterprises' access to finance, including trade finance, and to increase their participation in international trade and investment and digital economy. The ECOSOC called for the development of classification systems as well as globally consistent and comparable sustainability rating methodologies, which were transparent and traceable, to make sustainable investment more credible. It also expressed concern at the continued decline in correspondent banking relationships, due to de-risking trends, and its adverse consequences on low-value remittance flows.

19. Continued multilateral coordination on global trade was deemed necessary to correct many of the failures in the global food system, including by balancing countries' surpluses or deficits in food production. The multilateral trading system should contribute to the achievement of the SDGs, yet more must be done to ensure that trade and investment in food commodities would not perpetuate commodity dependency. Equally, new modes of international cooperation were necessary to preserve policy space for developing countries to pursue a new generation of sustainable and inclusive industrial policies.

20. Official development assistance (ODA) was associated with increased spending on processing and hosting refugees. Increased ODA, in line with longstanding commitments, should be new, additional and in support of countries in greatest need. A greater proportion of grant finance was needed as some countries were pushed increasingly to expensive loans from the capital markets. The ECOSOC expressed support to the Group of 20 (G20)-commissioned independent review of multilateral development bank (MDB) capital adequacy frameworks and ongoing balance sheet optimization efforts while safeguarding MDBs' long-term sustainability, robust credit ratings and preferred creditor status.

21. A comprehensive policy agenda on tackling debt vulnerability was needed as nearly 60 per cent of least developed countries and other low-income countries were assessed to be at high risk of or already in debt distress, while nearly a third of middle-income countries were at high risk of a fiscal crisis. Debt reduction, debt restructuring, debt stock management and debt transparency should be an integral part of the solution. The ECOSOC recognized that debt swaps could replace broader debt treatments in unsustainable debt situations to allow developing countries to use debt service payments for investments in sustainable development. Moreover, the historic allocation of $650 billion in SDRs by the International Monetary Fund (IMF) to boost liquidity failed to address the target audience and demonstrated the embedded inequality in the global financial system. Based on current quotas, developed countries received 26 times more than least developed countries, and 13 times more than all the countries of Africa combined.

C. Highlights from the Second Committee of the General Assembly (seventy-sixth and seventy-seventh sessions)

22. The seventy-seventh session of the Second Committee of the General Assembly approved 43 resolutions, including seven resolutions under agenda items on "Macroeconomic policy questions" and "Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development". Several new features were therefore introduced to ensure that resolutions adequately reflected current circumstances and policy priorities.

23. The resolution titled "*International trade and development*" (A/C.2/77/L.5/Rev.1) included a new language, requesting the members of the WTO to consider the reform of the multilateral trading system, underscoring the urgency of keeping food, fertilizer and agricultural markets open, equitable, transparent, non-discriminatory and predictable by eliminating trade-restrictive measures and distortions, speculations and hoarding through the reform of the agricultural multilateral trade rules.

24. The resolution titled "*International financial system and development*" (A/C.2/77/L.63) reflected consensus reached for the first time in five years. Some of the new elements in the resolution included the need to encourage regulators to consider the opportunities and risks surrounding central bank digital currencies. In this resolution, the General Assembly called for expanding support to highly indebted developing countries and considering the provision of temporary debt standstills on a case-by-case basis.

25. The resolution titled "*External debt sustainability and development*" (A/C.2/77/L.64) included a new language on the growing reliance on domestic borrowing, and on the need for credit rating agencies to ensure that their ratings were objective and independent, including by considering development, social and environmental indicators and impact of external shocks. It also highlighted that no single indicator should be used to make definitive judgments about a country's debt sustainability.

26. In its resolution titled "*Promotion of inclusive and effective international tax cooperation at the United Nations"* (A/C.2/77/L.75), the General Assembly proposed to begin intergovernmental discussions at the United Nations Headquarters on ways to strengthen the inclusiveness and effectiveness of international tax cooperation through the evaluation of additional options, including developing an international tax cooperation framework/instrument through a United Nations intergovernmental process. It also requested the Secretary-General to prepare a report outlining next steps, such as the establishment of a Member State-led, open-ended ad hoc intergovernmental committee to recommend actions on the options for strengthening the inclusiveness and effectiveness of international tax cooperation.

27. The resolution titled "Promotion of international cooperation to combat illicit financial flows and strengthen good practices on assets return to foster sustainable development" (A/C.2/77/L.66) broke new ground in a few areas, including: encouraging countries to create domestic institutional coordination mechanisms to combat IFFs; requesting the United Nations system to expand data collection on asset recovery and return; inviting countries to allow information exchanged for tax purposes to be used for other purposes such as law enforcement; inviting the ECOSOC to update and strengthen the United Nations code of conduct on cooperation in combating international tax evasion; inviting United Nations agencies to map out the

standards and guidelines for individuals and entities that enabled IFFs (such as lawyers, accountants and other professionals); and requesting the Inter-agency Task Force on Financing for Development to help incorporate anti-IFFs measures into INFFs.

28. The resolution titled "*Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development*" (A/C.2/77/L.50) included Member States' decision to consider convening a fourth international conference on financing for development in 2025, noting that the conference scope and roadmap remained to be developed. The resolution also included a new language on measuring progress on sustainable development and capturing its multidimensional nature.

II. Highlights from the United Nations Secretary-General's SDG Stimulus Plan

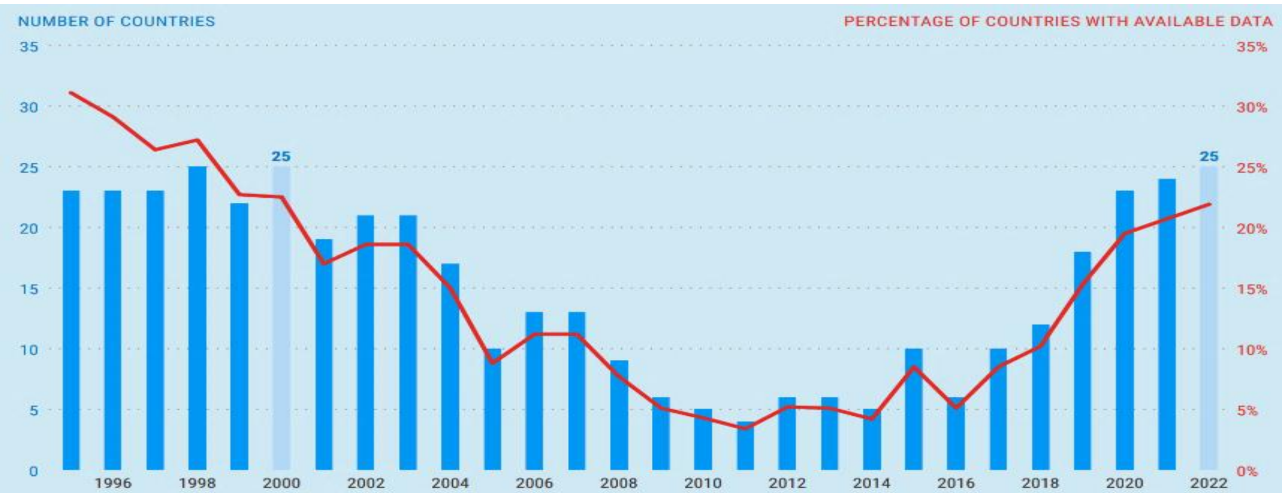
29. The United Nations Secretary-General called for scaling up affordable long-term financing, both concessional and non-concessional, for countries in need by at least $500 billion a year. The proposed plan aimed to accelerate progress on seven SDG transitional pathways through investments in renewable energy, universal social protection, decent job creation, health care, quality education, sustainable food systems and digital transformation. Given that national and global policy frameworks influenced risks, shaped incentives, impacted financing needs and affected the cost of financing, the following areas were considered to require immediate action:

A. Tackle the high cost of debt and rising risks of debt distress

30. The G20 Common Framework for Debt Treatments has not fulfilled its intended function and progress on debt treatments for countries that have approached the Common Framework has been extremely slow. Moreover, the Framework excludes vulnerable middle-income countries and does not include a mechanism to incentivize private creditors to participate in the Common Framework solutions. Concrete tools to incentivize or encourage private creditors to participate in official debt restructuring is needed to ensure comparability of treatment.

31. For this reason, there is a need to develop an improved multilateral debt relief initiative that involves a ready-made mechanism for debt reprofiling, exchanges and write-downs, when necessary, as well as automatic debt service suspension during negotiations (figure 5).

Figure 5. Number of countries paying more than 20 per cent of government revenues to service external debt



Source: United Nations Development Programme based on external public and publicly guaranteed (PPG) debt service data from the World Bank International Debt Statistics database and government revenue data from the IMF World Economic Outlook, October 2022 database.

Note: Debt service includes interest and principal payments on PPG debt.

32. Official creditors, including the IMF, should systematically include State-contingent elements into their lending agreements, including integrating disaster and pandemic clauses into all sovereign lending, to act as automatic debt suspension in the event of pre-defined shocks. In fact, State-contingent debt clauses will obviate the need to negotiate a debt service suspension initiative during a crisis and help prevent a liquidity crisis from turning into a solvency crisis. Debt sustainability assessments should be augmented by solvency risk analysis (through “solvency-focused” debt sustainability assessments), and can aim to better reflect a country’s SDG needs as well as progress on sustainable development by recognizing the long-term value of productive investment in sustainability and resilience.

B. Expand contingency financing to countries in need

33. There is a need to strengthen MDB capital base, improve the terms of their lending, and align all financing flows from both MDBs and public development banks with the SDGs. Amid the multiple external shocks, developing countries have lost an estimated $379 billion of reserves in 2022, almost double the amount of SDRs they received in the IMF allocation. New SDR allocations are needed and countries with unused SDRs must urgently re-channel an additional $100 billion of SDRs to countries in need, including through MDBs. Proposals to exploit how to leverage SDRs (or other reserves), such as utilizing them as MDB hybrid capital without compromising their reserve asset function, should be explored. The automatic issuance of SDRs in times of crisis should also be considered. Meeting ODA commitments can provide over $150 billion per year in stimulus for the SDGs.

34. The international community should also explore other mechanisms to increase global liquidity, such as increasing access to existing emergency windows at the IMF and World Bank, utilizing quick-disbursing instruments with low interest rates, applying parsimonious conditionality and enhancing regional financing arrangements.

C. Reform of the international financial architecture

35. Broader reforms to the international financial architecture are needed. Global economic governance reform, including by updating quota formulas based on gross domestic product, de-linking access to resources from quotas, and reforming voting rights and decision rules, will be central both to ensure an effective architecture and to rebuild trust in the multilateral system.
