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The UN General Assembly 2023:
The urgency of compromise on financing for development

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The state of play

New York will gear up this month to receive over 100 heads of state and government at the United Nations (UN) General Assembly. Behind the scenes, rising geopolitical tensions caused by structural competition, by the invasion of Ukraine and by the internationalization of other conflicts and coups d'etats (notably in West and Central Africa) will dominate. The world faces the prospect of more frequent interstate conflict and economic confrontation, which would have devastating consequences for international cooperation on socio-economic prosperity, conflict, and climate. We expect China, Russia, and Western countries to seek to build out their respective alliances—as previously analyzed, there have been moves from the West to make concessions to the Global South and a heating up of development competition between China and the West.

The formal, principal focus of the High-Level Week is in fact on development—at the Sustainable Development Goals Summit. The Sustainable Development Goals (SDGs) are now off-track across the board, after COVID-19, successive economic shocks, the secondary effects of the invasion of Ukraine, and accelerating climate change. There is a chance for these two dynamics, geopolitical tensions, and development concerns, to be linked in a form of "virtuous competition." Western countries, China, and Russia want allies, while developing countries want socio-economic assistance—particularly in the face of declining liquidity and rising debt, not to mention the numerous unfulfilled international commitments made by developed countries, including on climate.

Economic and financing issues remain the most contentious underlying the summit and were the subject of a disconnect in the 2022 UNGA speeches by heads of state from the Global North and Global South. Growth in low-income countries has plummeted since the beginning of COVID-19, going from 3.1 percent annually to 1.4 percent since 2020. In rich countries, the decline is only 18 percent since 2020. Conversely, rich countries succeeded in mobilizing a staggering 18 percent of GDP in stimulus and social protection programs, middle-income countries around 6 percent, and low-income countries only 2 percent. Debt levels are rising sharply.

This has drawn recent commentary from institutions not known for their stridency on economic justice issues. Kristalina Georgieva, the Managing Director of the International Monetary Fund (IMF), noted in a recent *Foreign Affairs* piece that "there is a troubling lack of urgency when it comes to turning back the tide of fragmentation." As Martin Wolf wrote in the Financial Times early this year, developing countries feel profoundly aggrieved by double standards in attention to socio-economic issues in the past three years: "Covid was not these countries' fault. The lack of global co-operation in tackling it was not their fault. The lack of adequate external official funding was not their fault. The global inflation was not their fault. The war is not their fault. But if the high-income countries do not offer the help they now evidently need, it will unambiguously be their fault." Climate was not mentioned but could easily have been—the success of the climate summit this November, is also dependent on financing commitments.

The prospects for a good outcome of the SDG Summit have ticked up in the last week, with the submission of a draft political declaration from the President of the General Assembly (PGA), facilitated by Ireland and Qatar. This declaration received the agreement of all member states except those 11 in the Unilateral Coercive Measures (UCM) group who objected to the absence of its mention (UCM being UN parlance for sanctions and their developmental impact). It is hoped that this group will make a statement on the matter, but not prevent the political declaration from being adopted. Many would have aspired to a more ambitious action-oriented political declaration but given the present political challenges, this would be a good outcome that avoids the multilateral breakdown that the absence of a statement would have implied.

What would success at the SDG summit look like and how can we create the necessary momentum for action?

Neither the SDG Summit nor the High-level Dialogue on Financing for Development this September are pledging meetings, so the expectation should not be that they will provide the funds needed. Yet they can play a crucial role by creating political momentum in advance of the IFI annual meetings in Marrakesh, the G20, the OECD Development Assistance Committee (DAC) High Level Meeting, and other major international meetings. Box 1 below shows what a realistic measure of success might look like, and the following sections expand on the issues and timelines.

Box 1: Success should be judged by …

→ **A focus on a few crucial objectives** to accelerate real additional global finance and debt relief, including (1) setting broad, strategic objectives for both changes to capital adequacy and a significant increase in grant-based funds to provide concessionality at the MDBs; (2) resolving slow progress in recycling Special Drawing Rights (SDRs); (3) specific, speedy and systematized steps and timelines agreed in order to make the Common Framework more functional for countries experiencing or at risk of debt distress; (4) a review of the DAC rules on charging costs incurred within donor countries receiving refugees to overseas development cooperation budgets. *The fewer the objectives the more effective the political direction is likely to be.*

→ **A clear direction across government**, requesting finance ministries to work with foreign ministries and the offices of the heads of state and government on these issues. A task force of interested countries could be considered for this, cross-regional and cross-ministerial. At the same time, since independent central banks cannot be instructed by heads of state or government, there could and should be an ask for a stronger and urgent dialogue between central banks to offer solutions on SDRs.

→ **Timelines and a mechanism of accountability at the head of state and government level.** Clear timelines could involve upcoming G20 meetings, the Annual/Spring Meetings of the IFIs, and the DAC High Level Meeting in late 2023 (some suggestions are made in this note). Given the urgencies, heads of state and government could offer to come together virtually within the next six months to assess what has been achieved and which objectives are on or off track.

Where do we go now?

Moving to a more action-oriented UNGA High-Level Week that sets political direction will require addressing some of the concerns that were behind the objections to the draft political declaration in July 2023. The most contentious elements of the draft involved objections to the financing paragraphs and references to the detrimental effects of sanctions. The countries with difficulties on financing included the United States, United Kingdom, Japan, Canada, Australia, and New Zealand. Meanwhile, a group of 11 countries insisted on including an explicit reference to the detrimental effects of sanctions (the UCM group), which once again proved contentious. In the draft submitted late last week, there has been compromise on the financing language, involving an adjustment of the paragraphs dealing with Special Drawing Rights and IFI governance. But as mentioned above, the UCM group has maintained its objection to the absence of an explicit reference to the developmental impact of unilateral coercive measures, for example in health.

There is room to establish consensus, and build on this baseline agreement, through heads of states and government's direction and concertation at the UNGA plenary and the various other summits or high-level meetings taking place. For those countries with concerns on financing, it is likely that part of the objection to the original draft has to do with inter-agency turf concerns. Many of the issues being negotiated fall not only under the realm of foreign policy but deal with fiscal and economic policy—the remit of finance ministries and central banks. These agencies have urgent domestic concerns at present, and generally do not favor that global proposals on economic issues, such as the reform of the IFIs, tax or debt, and SDRs, be discussed at the UN in New York rather than in the established governance structures in Washington D.C., the OECD, G20, and elsewhere.

Here, the argument needs to be that it is in the interest of finance ministries and central banks to push the urgency of international economic issues at the highest political level. In order for this to happen, it will help if there is explicit understanding and endorsement on objectives from the head of state or government, as well as foreign ministry involvement to inform on expectations and tensions with other member states. The UN in New York is a good platform to lay out some strategic, political-level objectives that economic and financial discussions should meet. In contrast, New York should not engage in technical discussions: the fine-print details of these agreements should be ironed out by capitals and in Washington D.C., G20 meetings, and elsewhere. The time has come for greater joint initiatives between ministries in capitals, and between diplomatic officials in New York and finance officials in Washington D.C., to take forward global economic issues affecting both of their agendas. Differing sets of expertise can work to an advantage here when collaboration between ministries is prioritized and can help build realistic commitments.

The Global South could also compromise by moving beyond "standard text." The call for 0.7 percent of ODA is a justified reminder of unfulfilled commitments, but it has little current traction with the parliaments and publics of most donor countries, where domestic inequality and fiscal pressures constrain the willingness of their populations to contribute more overseas. Traditional donors see other high-income countries, such as the Gulf Cooperation Council countries, the Republic of Korea, and Singapore (who are able to contribute), left outside the formal remit of this call, since at the UN they are always referred to as developing economies. This also applies, in the Western view, to China which, while being upper middle-income, has an ability to contribute, and indeed a large existing external cooperation program, including a large role in rising debt distress.

It is correct to call on high-income and large economies to contribute more in the face of current crises. The G77 can, however, nuance the message by clearly expanding the call to all high-income countries (and considering the approach to China, no matter how difficult this is diplomatically). They can also point more to three ways in which grant-based financing from high-income countries is crucial to long-term financial stability, to delivering a high return on investment, and thereby in the interest of high-income countries:

1. It will cost more down the line if the global economic and climate situation is not stabilized now. High-income countries are looking to save pennies today, in relation to the costs that may ensue tomorrow if there is widespread global economic instability, large-scale movements of refugees and migrants, and accelerating climate-related events. Evidence has shown that investment in peace and prevention efforts now can save money in the long run. This is a very basic argument but merits more attention than it is getting.

2. Without an increase in grant-based financing, it is impossible to meet the goals in the World Bank's draft Evolution Roadmap of continued support to low-income countries' development, while also providing for global public goods expansion in middle-income countries. How does this work? Essentially, the World Bank and other multilateral banks (MDBs) raise commercial funds on the markets, relatively cheaply because of their AAA ratings with credit agencies. These are then lent to middle-income countries at commercial rates. To make the funding more attractive and sustainable for low-income countries, a grant component is added, such as the World Bank's International Development Association (IDA) round and the equivalent in other MDBs. This same dynamic is needed for climate, prevention of pandemics, and other global public goods, where increased mitigation in middle-income countries benefits the whole world, and therefore, there is an argument to subsidize this. This issue is urgent, with the Marrakesh IFI meetings an appropriate deadline.

3. Grant-based funds can also be weighted in favor of certain uses of financing, which have been requested by developing countries to increase sustainability—for instance to enhance domestic tax cooperation, accompanied by appropriate international tax cooperation measures. This would also help to bridge another objection of the West, in the lack of reference to domestic resource mobilization in the current political declaration draft – but in this case an objective that is shared by developing countries. More attention could be put in the UNGA FFD discussions to the relation between illicit financing, international cooperation over tax and illicit financing flows, domestic resource mobilization, and anti-corruption measures.

Still on aid, developing countries—alongside developed countries who have not taken advantage of this provision—could also call for **a reform of the DAC rules which allow the in-country costs of refugees to be counted against aid budgets.** This means that the costs of accommodating a refugee in London or Amsterdam is counted as overseas development aid. USD 29 billion, or almost 15 percent of total aid budgets, went to this purpose in 2022. This is wrong on moral, equity, and economic terms: accepting refugees is an obligation under international law and it means that the funds will go to those who already have a better chance and are being accommodated in developed economies. Perhaps most importantly, it means that the multiplier benefit to the economy of aid funds go to the donor country, not to developing countries. The DAC Chair has called for a clarification and potential reform of this rules, which could be supported by developing countries. The DAC High Level Meeting in 2023 would be one opportunity to take this forward.

On special drawing rights, objections within Western countries include the interest of central banks. This often tends to make the argument quite legal and technocratic. There is a need to demystify the use of SDRs and other reserve assets: the IMF itself notes that one purpose of reserves is to meet emergency needs; reserves grew during COVID-19 and it is unclear that it is not a better use of a small portion of these to foster more global financial and economic stability, in line with the emergency rationale. The African Development Bank has a good proposal for the use of special drawing rights through a multilateral development bank, as a hybrid capital instrument. It is now almost three years since the COVID-19 linked issue of special drawing rights was agreed upon, and still only a tiny portion of this has been recycled to developing countries through the IMF mechanisms—**it is time for different solutions**. Given the independence of central banks, dialogue needs to be led within their own international processes. The Spring Meetings 2024 would be a reasonable deadline for this.

On debt, it has taken more than two years for Zambia to reach an agreement on restructuring its sovereign external debt under the G20-led Common Framework for Debt Treatment—something which is still not fully secured—as China and the West have failed to establish early communication, and issues such as the treatment of MDB loans or of foreign held local currency bonds, among others complicated the negotiations. The protracted impasse in reaching an agreement has undermined the value of the Common Framework as an emergency framework. **The recommendations in the draft political declaration here are entirely reasonable** given the urgency of the situation for the 11 countries who the IMF classify as already debt distressed and the further 25 countries classified as high-risk.

Selectivity, vulnerability, and emergency response. The World Bank commits in its Evolution Roadmap to developing new ways to inform selectivity, based on vulnerability, and to strengthening its "Day 1" emergency response to global crises. At the same time, the UN has underway exercises on "metrics beyond GDP" and on multidimensional vulnerability, as well as on an emergency response platform. It would be good to bring these discussions together by UNGA 2024, resulting in one established set of metrics and multilateral emergency response, not two. This is particularly important considering that the impacts of climate change, pandemics, and conflicts are among many development challenges faced by many developing countries, particularly, Small Island Development States, Least Developed Countries, and Landlocked Developing Countries, which are already experiencing tight fiscal space and are highly indebted.

It is vitally important for people around the world that significant additional financing is put on the table to ensure continued hope that future generations will face better opportunities than ourselves, and not inherit a world dominated by preventable crises. **This is also a pragmatic, geopolitical interest.** The interest of the West, Russia and China are of course competitive. Yet all will suffer, alongside the populations of developing countries, from political volatility and the geoeconomic fragmentation brought by lack of compromise. **This is a moment, not to ignore contestation, but to find the ways to compromise for the common good.**

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