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BRIEFING

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

A snapshot of the ongoing work at the United Nations in times of crisis

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This briefing paper looks at the financing for development (FfD) work at the United Nations in 2020, an exceptional year due to the outbreak of the global coronavirus crisis in the spring. Following this shock, FfD became a highly relevant issue on the UN agenda. The FfD process as originally scheduled was redesigned, with the FfD Forum originally scheduled for April cut down from four days of face-to-face meetings to a virtual session that lasted for just one hour. An official outcome document was adopted anyway, however free of concrete commitments that would match the needs of coping with the crisis.

In late May, Canada, Jamaica and the UN Secretary-General took the initiative to convene the High-Level Event on Financing for Development in the Era of COVID-19 and Beyond, which saw unprecedented participation by heads of states and governments, and eventually led to the foundation of six thematic working groups mandated to develop policy options on pertinent FfD topics – such as debt relief and illicit financial flows – or even wider sustainable development issues such as growth, labor, and the rather abstract concept of recovering better.

This briefing paper is a snapshot that maps, summarizes and briefly analyses the work on FfD at UN level that took place in 2020, until mid-August. In doing so, it aims to create more transparency about this important UN workstream, help to disseminate its preliminary outcomes, and mobilize and enable more actors to participate constructively in this work. A strong and effective multilateral response to the crisis, with the UN at its center, will be crucial to mitigating the impact of the coronavirus crisis and ensuring a speedy recovery.

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Introduction – an extraordinary year for FfD

The coronavirus crisis took the international community by surprise. If the year 2020 had been business as usual at the United Nations, the Inter-agency Task Force on Financing for Development (IATF) would have presented their monitoring report – the Financing for Sustainable Development Report – in draft format in February.[1] Eventually, governments and other stakeholders of the informal group "Friends of Monterrey" would have retreated to a conference hotel in Mexico for a few days in March, to discuss what to get out of the 2020 Financing for Development Forum, which was scheduled to take place in April, as it had done each year since 2016.

Diplomats in New York would have started to negotiate a brief outcome document for the annual FfD Forum, and some government negotiators would have insisted to delete most concrete commitments during the process, resulting in a vague and unambitious product whose most elaborate element would have been the new mandate for the researchers working on the following year's IATF Report. In April, the global FfD community would have gathered at UN headquarters in New York to exchange views for a week. And from May to December, not much would have happened, until the annual FfD-process cycle would have begun again. But then COVID-19 developed into a full-scale global pandemic, and became a game changer for the UN's financing for development agenda.

The last thing that happened as planned was the publishing of the draft IATF report in early March.[2] The monitoring exercise in the draft report identified backsliding in many key FfD areas, and consequently, the report conveyed strong messages around the guiding theme "arrest the backslide". It fit well for purpose, as the 2020 FfD Forum was supposed to be the first of the "Decade of Action" to accelerate the implementation of the Sustainable Development Goals (SDGs). Even before the coronavirus crisis hit humanity as an unprecedented global triple crisis (health, economic, financial crisis), SDG implementation had not been on track. The UN planned to address this by calling on the international community to scale up and speed up their efforts for the remaining ten years of the Agenda 2030, including in the key area of financing for development, among other things a cornerstone of the SDG's "means of implementation". The draft IATF report pre-corona crisis assessed the state of play in all FfD action areas and established stagnation or even setbacks in many areas. This was the dire state of affairs before the onset of COVID-19.

The crisis's impact on development finance

The coronavirus crisis then turned out to be a 'perfect storm' for development finance[3] – an unprecedented event, in which all sources of development finance dried up simultaneously:

» Domestic tax revenue decreased naturally, as the lockdowns froze almost all economic activity, and some countries even gave tax breaks to relieve pressure on private economic actors.

» Foreign private capital exited developing countries in record volumes and in record speed in March 2020, with nearly 100bn US-dollars being transferred to ostensibly safer havens in just one month.

» Export revenue collapsed due to a combination of overall lower trade volumes, and lower prices especially for commodities. One day in late March, the oil price even fell below zero.

» Workers' remittances fell due to a massive surge in unemployment, affecting especially workers in more precarious jobs that are often done by migrants.

» Only official development assistance (ODA) was not showing a clear trend yet. Some donors, such as the UK, announced massive cuts, while others, like Germany, recorded substantial increases.

While revenue collapsed, public spending needs to be increased massively. Both the IMF[4] and the UN[5] estimated that developing countries (or emerging markets) would need an extra 2.5 trillion US dollars

1 For more information on the IATF, see: https://developmentfinance.un.org/

2 The draft IATF-Report is usually made publicly available for stakeholder consultation, but is no longer online since the final version has been released.

3 Reliable data for the economic impact is hard to find. International organizations made projections early on, but accuracy was and remains limited due to the uncertainty caused by the crisis. For an early assessment on the impacts (in German), see Ellmers, Bodo and Jens Martens (2020): Die globale Coronakrise. Weltwirtschaftliche Auswirkungen und international Reaktionen – ein Update. For a more recent assessment (in English) see OECD (2020): The impact of the coronavirus (COVID-19) crisis on development finance.

4 https://www.imf.org/en/News/Articles/2020/03/27/tr032720-transcript-press-briefing-kristalina-georgieva-following-imfc-conference-call

5 https://unctad.org/en/pages/newsdetails.aspx?OriginalVersionID=2315

to cope with the crisis. Whereas richer countries are able to respond to such a crisis with gigantic rescue packages, financed by debt-financed fiscal expansion and by monetary expansion, by central banks, poorer countries are naturally unable to mobilize domestic resources to the same extent. Alone the fiscal support financed by budgetary measures accounted for 8.3 % of advanced economies' GDP by June 2020; this is 6.6 percentage points higher than in the global financial crisis. Developing countries in turn could mobilize just 2.0% of their much smaller GDP.[6] It soon became obvious that COVID-19 would not merely cause a humanitarian disaster in poorer countries, it would also sound the death knell for the UN's fragile Agenda 2030, unless the international community made extraordinary efforts towards a coordinated and effective response leaving no one behind.

The UN's FfD agenda revamped

Multilateral coordination was hampered when officers up to head of state level moved home to work, and international flights or any physical meetings were now no longer possible. In 2009, to address the last major financial crisis, the UN convened an extraordinary global Summit, the "UN Conference at the Highest Level on the World Financial and Economic Crisis and Its Impact on Development", at UN headquarters in New York. A similar response was not possible under the conditions of a global pandemic. Nevertheless, some parties, and especially civil society organizations (CSOs), called early on for an UN Economic Reconstruction and Systemic Reform Summit, aiming to foster multilateral consensus on the immediate crisis response but also to exploit – in the spirit of 'never miss a good crisis' – the political window of opportunity to pursue long overdue reforms of the international financial architecture.[7]

In the early months of the pandemic however, no new opportunities were created. The immediate consequences for the UN-FfD process were:

- The Friends of Monterrey retreat in Mexico got cancelled.
- The IATF went back to the drawing board, and revised the 2020 FSD report in a way as to reflect the coronavirus crisis.
- An FfD Forum outcome document was negotiated and eventually adopted, however in the new style of 'zoom and whatsapp diplomacy', avoiding physical meetings.
- After several weeks of back and forth, it was decided that the FfD forum would take place, albeit virtually, and in a massively abridged format, with just one hour of speeches, instead of the originally scheduled four days of interactive dialogue.
- To complement the FfD Forum, the President of ECOSOC announced the addition of an extra informal meeting to the UN's agenda, to be held on the 2nd of June 2020, "with a focus on needs on the ground and concrete financing options for Member States".[8]

The 2020 virtual FfD Forum

The FfD Forum is, in the UN's own terms, "an intergovernmental process with universal participation mandated to review the Addis Ababa Action Agenda and other financing for development outcomes and the means of implementation of the SDGs."[9] The virtual event, which lasted for just one hour saw speeches by the ECOSOC President (Mona Juul from Norway), by UN Secretary General António Guterres, by the President of the UN General Assembly (PGA) (Tijjani Muhammad-Bande of Nigeria), and by GAVI's chairwoman Ngozi Okonjo-Iweala, a former Nigerian Finance Minister. ActionAid International chairwoman Nyaradzayi Gumbonzvanda spoke for CSOs, while the private sector representative was Jay Collins of Citigroup. No representatives of UN Member State governments spoke or intervened in the event. And as there was no dialogue, it was difficult to sense what positions individual Member States and UN negotiation groups would take towards FfD in the new context of the coronavirus crisis.[10]

6 Alberola, Enrique, Yavuz Arslan, Gong Cheng, Richhild Moessler (2020): The fiscal response to the COVID-19 crisis in advanced and emerging market economies;

7 CSOs continue doing so, cf. https://csoforffd.org/2020/07/14/statement-of-the-civil-society-ffd-group-including-wwg-on-ffd-for-the-general-debate-of-the-2020-hlpf/

8 United Nations (2020): Summary of the President of the Economic and Social Council of the forum on financing for development follow-up (New York 23 April 2020 and 2 June 2020), para 3

9 https://www.un.org/development/desa/financing/what-we-do/ECOSOC/financing-development-forum/about-the-forum

10 The 2020 FfD Forum has been broadcasted on UN WebTV, a recording is available on Facebook: https://www.facebook.com/UNWebTV/videos/financing-sustainable-development-in-the-context-of-COVID-19/262387911595287/

Remarkably, while the outcome document has been weak on ambition and largely free of concrete agreements, the speeches were relatively bold. In particular, 'debt' was high on the agenda. The official summary states that "A debt standstill and targeted relief were stressed unanimously as preconditions for recovery in developing countries".[11]

In what was probably the highlight of the virtual Forum, for the first time since assuming office, UN Secretary-General Guterres explicitly endorsed the creation of "a mechanism to address sovereign debt restructuring in a comprehensive and coordinated manner that takes account of the need for countries to step up their efforts to achieve the sustainable development goals", thereby backing a long-standing demand for international financial architecture reform by the G77 and CSOs working on debt justice. Guterres also called for the extension of the debt moratorium offered by the G20 to all developing countries that request forbearance, including middle income countries, and stressed the need for actual debt relief. To ensure that governments have sufficient liquidity, he called on the IMF to issue additional Special Drawing Rights.

Mona Juul also stressed the need for action on debt and recalled steps and proposals already made. Moreover, she emphasised the need for action on tackling illicit financial flows, and reminded participants of the gendered impacts of the crisis, as it was often women who were taking strains.

Decisive action on debt featured in the speeches of Okonjo-Iweala and Gumbonzvanda, too. The former also stressed the need to provide vaccines at affordable prices and strengthen health systems, while the latter raised awareness for inequalities in the context of COVID-19 as poverty, race and gender all mattered for the impact of the crisis. She demanded to address the underfunding of public services, curtail illicit flows, promote progressive taxation including a COVID-19 wealth tax, and, for rich countries, deliver a USD 500bn aid package to help poor countries cope with the crisis. The President of the General Assembly (PGA) called for international solidarity, supported the call to honor ODA commitments, and reminded participants to continue implementing the Agenda 2030 under the new conditions of the COVID era. He stressed the need for all creditors to participate in debt relief efforts. Citigroup's Jay Collins wanted to keep capital markets open and retain private sector participation in debt standstills on a voluntary basis.

Despite their brevity, the speeches at the April virtual FfD Forum gave clear signals for priority areas in which action was needed, and thereby set the pace for the following events, in particular the new FfD process in the era of COVID-19 that emerged. The spaces at the Special Event on "Financing a Sustainable Recovery from COVID-19" on the 2nd of June were primarily used by representatives of international institutions, who presented the work they had been doing to address the crisis.[12] Priority areas mentioned in April had been reinstated, but otherwise little news was added.

The FfD forum outcome document

The FfD Forum outcome was supposed to be a "programme of action … the first universally agreed UN set policies to finance COVID-19 response and recovery", reads the official announcement on the UN website.[13] This sounds bold, but with regards to the magnitude of the crisis and the challenges that the international community faced, the outcome was a huge disappointment.

The preamble raises high expectations, and refers to the double challenge to find the resources to finance the existing SDG agenda and the new crisis response needs, stating: "We are determined to advance bold and concerted global action to address the immediate social and economic impacts and achieve a quick, inclusive and resilient recovery, while keeping in sight the achievement of the Sustainable Development Goals."[14] However, a number of powerful governments blocked every action-oriented agreement, so that not a single concrete action is agreed upon.

Thus, the FfD forum outcome document only contains vague declarations of intent, e.g. to develop disaster risk financing strategies and instruments (para 6). On tackling the new debt crisis, the document just welcomes steps taken by IMF and World Bank to provide additional liquidity, and the debt

11 United Nations (2020), para 2 https://www.un.org/development/desa/financing/sites/www.un.org.development.desa.financing/files/2020-07/A_75_93_E.pdf

12 For documentation of the event, see https://www.un.org/development/desa/financing/events/forum-financing-development-meeting-financing-sustainable-recovery-COVID-19

13 https://www.un.org/development/desa/financing/post-news/2020-ecosoc-forum-financing-development-ramps-response-COVID-19

14 Para 3 of the outcome document; https://undocs.org/E/FFDF/2020/3

service suspension initiative (DSSI) agreed earlier by the G20, and vaguely states that the Member States will "continue to address risks of debt vulnerabilities", without going into any detail. Donors are called upon to honor their ODA commitments, without clear steps or a timetable for how the targets will be met being outlined.[15]

On taxation, the UN Member States just acknowledge "that any consideration of tax measures in response to the digitalization of the economy should include a thorough analysis of the implications for developing countries", obviously referring to the parallel process on digital taxation ongoing under the leadership of the exclusive circle of the OECD. On illicit flows, members re-commit to address challenges in combatting them, without getting anywhere near detailed statements (para 14). As regards private finance, the outcome "welcome(s) the growing interest in sustainable investment", and Member States commit to creating an enabling environment and incentivizing greater sustainable investment in developing countries … to ensure a sustainable recovery from the pandemic" (para 16). Perhaps the most noteworthy, if not only, concrete outcome was that the IATF was mandated to address the impact of the pandemic in the 2021 Financing for Sustainable Development Report.

The negotiations around the FfD outcome were overshadowed by the disputes between China and the USA about many things, but here in particular about the role of the WHO. The first draft had contained a passage that policy action would take place "with the World Health Organization at the forefront", which got deleted as the negotiations proceeded. US president Trump had criticized the WHO for being too China-friendly.[16]

Also deleted was an explicit reference to considering capital account management in paragraph 10, despite the obvious fact that effective capital controls could have prevented the massive outflow of capital from developing countries in March. On debt, the passage "through existing channels" was added to the commitment to address debt vulnerabilities. That was counter-productive because it lowered the expectations on governance reforms in a context where it was already obvious that existing channels were no longer up to the task, and that no existing channel can ensure much-needed and widely demanded private creditor participation in debt relief programs.

All in all, the official outcome of the 2020 FfD Forum was a missed opportunity. The opportunity presented by UN Member States having been convened anyway to debate economic and financial affairs could and should have been used to agree on bold and concerted actions to put FfD at work in the coronavirus crisis. But governments did not find a consensus, no such action was finally agreed. The sense of disappointment was obviously shared, not just by CSOs, but also by senior management of the key UN bodies, which might explain the much bolder and concrete policy suggestions the UN Secretary General and PGA made during the virtual FfD Forum on April. The actions mentioned were the actions needed.

It could be argued that the failure was due to the challenging conditions in which negotiations took place – by the uncertainty caused by the rapidly changing external environment and the challenges of moving from face-to-face to virtual negotiations. The delegates could have easily reacted to it by simply agreeing an early date for the Fourth International Conference on Financing for Development at highest political level, the successor to the Monterrey/Doha/Addis Ababa series of FfD conferences, which is overdue to be held. However, there was no consensus on the if and when it would be held, so the decision was deferred for another year.

But, while unanimous consensus on bold actions was not immediately achievable in April, many UN Member States found that loitering for a whole year in the midst of an unprecedented global humanitarian and development disaster was not an option. Contrary to the response to the global financial crisis in 2008/09, political leadership in this situation was not exercised by the traditional great powers, whose governments showed little interest in coordinating the multilateral response.

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

The initiative to set up an extraordinary process came from Canada and Jamaica, in cooperation with the UN Secretary-General. Rather spontaneously, they convened the "High-Level Event (HLE) on Financing for Development in the Era of COVID-19 and Beyond", scheduled to take place on the 28th of May 2020. Chaired by Justin Trudeau, Prime Minister of Canada, and Andrew Holness, Jamaica's Prime Minister, the HLE con-

15 24 of 29 members of the OECD DAC missed the 0.7 % target for official development assistance in 2019

16 https://eu.usatoday.com/story/news/factcheck/2020/04/11/coronavirus-fact-check-donald-trump-vs-world-health-organization/5128799002/

vened a for – FfD standards – record number of political big shots, including many heads of states from larger countries that were usually just represented at ministerial level, even at the International FfD Summits, such as the latest one in Addis Ababa in 2015.[17]

The impressive participation is evidence of the relevance of having a substantial high-level FfD discussion in the new context of the COVID era. Germany was represented at the event by Chancellor Angela Merkel, and Italy by Prime Minister Giuseppe Conte. The French President Emmanuel Macron and the Prime Minister of the UK, Boris Johnson, at least sent video messages. On top of this, all major international organizations participated at the highest level, including the IMF (Georgieva), World Bank (Malpass), OECD (Gurría), the UN (Guterres) of course, and, surprisingly, also the European Union, separately represented by the President of the European Commission (von der Leyen). Furthermore, countries of the South were represented by prominent Heads of States.

South Africa, also holding the presidency of the African Union, was the first to speak. President Ramaphosa picked up from the debates at the FfD Forum. To address the debt crisis, the international community should start with an across-the-board debt standstill, followed by targeted debt relief, and setting up a debt workout mechanism, i.e. developing a comprehensive solution to structural issues in the international debt architecture. The African Union supported the UN Secretary General's call for a global response package amounting to at least 10% of the world's GDP. This would imply more than 200 billion US dollars of support for Africa.

European heads of state were positive about the need for international cooperation, but remained vague and non-committal, procrastinating over concrete steps. Angela Merkel announced that Germany would work for the full realization of the G20 Debt Service Suspension Initiative (DSSI), including for private creditor participation in debt relief, and requested to check the need for further action on debt at the end of the year. She expressed Germany's support for additional steps at the IMF, namely a Special Drawing Rights (SDR) allocation (knowing that this is currently not possible due to lack of support by the de facto IMF veto power USA).[18] She stressed the need to tackle corruption and illicit financial flows, and that the crisis should also be seen as an opportunity and recovery should be in line with the SDGs and the climate treaties.[19] The President of the European Commission, von der Leyen, supported the view that the recovery should be green, digital and just. She presented the idea for a Global Recovery Initiative linking investments and debt relief to the SDGs.

France cited scaled up support to health systems and to Africa as priorities (including debt restructuring). Macron also announced that France would host a Summit of Public Development Banks to take place in November this year. Costa Rica gave strong support to the issuance of SDRs and stressed the need for the reform of the global financial order, driven by solidarity. Norway, Japan and Italy emphasised their support for the DSSI. Japan and the UK flagged, among others, their financial support to the IMF's Catastrophe Containment and Relief Trust (CCRT), which enabled the IMF to write off some loans owed to the IMF by its borrower countries.

Norway furthermore emphasized the need to curtail illicit financial flows, and pointed to the work of the new FACTI panel at the UN that had been set up with the strong support of the Norwegian ECOSOC presidency.[20] Kazakhstan, as chair of the Group of Landlocked Developing Countries, stressed that all developing countries should have access to debt-to-health swaps to gain the fiscal space needed to cope with the crisis.

In addition, a bold statement was also made by Mia Mottley, the Prime Minister of Barbados, which also holds the chairmanship of the Caribbean Community (CARICOM). Mottley pointed to the urgency of taking decisions, warning that "time is not our friend … we will be asked what we did in the period of COVID". The HLE should help to ensure that poorer people and smaller countries did not become collateral damage to the larger countries. She pointed out that the international financial architecture created 75 years ago was no longer up to the task, sidelining too many countries

17 The documentation is available at: https://www.un.org/en/coronavirus/hle-financing-development

18 SDRs are issued by the IMF and can be changed into hard currencies such as the U.S. dollar. SDR issuance is seen as a key option to increase liquidity for the countries that receive them.

19 Merkel's statement is one of the few not on the UN website, but a summary is available here: https://www.bundeskanzlerin.de/bkin-de/aktuelles/un-konferenz-COVID-19-1756464

20 https://www.factipanel.org/

when it came to access to concessional finance, or debt relief. Debt instruments needed to ensure that countries affected by disasters could suspend debt payment. Pakistan, which had earlier presented its own proposal for a debt relief initiative, once again made it clear that developing countries didn't have the fiscal space to respond to the crisis that richer countries enjoyed.

Similar statements on the need for debt relief, SDR issuance, and creating fiscal space were made by other heads of countries speaking at the summit, including Belarus, Colombia, Eswatini, Gambia, Ghana, Kenya, St Lucia and Togo – as well as by civil society – including for example civil society speakers from Oxfam and the International Trade Union Confederation. Oxfam also flagged the need to introduce new solidarity taxes to raise money for crisis response, including a new financial transaction tax, and restated the demand to hold an International Summit on Economic Reconstruction next year that could actually make fundamental decisions.

Interestingly, very few speakers trusted that the private sector could play a significant role in the crisis response going beyond its participation in debt relief initiatives. This was a significant deviation from the hegemonic view in the pre-COVID FfD dialogue in recent years, which had attributed the primary role in development finance to private finance, and had degraded public finance to a supporting role in blended financing instruments leveraging private finance. Only Singapore spoke out in this regard.

Donald Kaberuka, the Special Envoy of the African Union, made it clear that the key criteria of success was whether the international community managed to mobilize additional finance to address the crisis: "At the end of the day, the key issue is additionality: fresh, new financing". He criticized the current multilateral response, which was mainly frontloading disbursements by the multilateral development banks, as an unsustainable strategy that would backfire in future years.

The 28th of May High-Level Event on Financing for Development in the COVID-Era was a timely and remarkable event which attracted a record number of Heads of States from developed and developing countries alike. In doing so, it proved that the UN can be a highly relevant convening space. A space that has the advantage over the G20 that it is fully inclusive, i.e. that all the world's nations have a space at the table, and even the non-governmental stakeholders have good access. Moreover, a space that has the advantage over the IMF that the mandate is much broader – including also human rights, and sustainable development in its broadest sense, and that power and voting rights are more equally distributed.

However, one downside of the HLE was that no concrete additional actions or measures had been agreed and announced. Representatives of governments and international institutions welcomed the (insufficient) steps already taken elsewhere, e.g. in the G20, and to some extent showcased the actions that their states and institutions were already taking. Little was achieved to get anywhere near the funding and debt relief targets that the UN had announced earlier: the 2.5 trillion USD package composed of additional aid, debt relief, and special drawing rights.

Intended as such or not, the HLE was not a pledging conference contributing to creating the fiscal space needed in the COVID era. Its value was primarily to kick off a long overdue intergovernmental process about necessary global economic governance reforms at United Nations level. To pursue these reforms, six thematic working groups have been founded, with the mandate to explore reform options along relevant thematic axes or streams.

The six Discussion Groups and their work

The six Discussion Groups (DG) founded after the HLE reflect the priority interventions that came up during the HLE's debates. Namely

» the need to find an urgent solution to the new wave of debt crises (DG4)

» the challenge to involve private creditors in debt relief efforts (DG5)

» the need to curtail illicit financial flows and plug a black hole that impedes the recovery (DG6)

» the urgent need to provide liquidity to countries in need so that necessary imports can be financed (DG3)

» the more fundamental question how to raise external finance and secure jobs and growth in the COVID era and beyond (DG1)

» and the cross-cutting affair of how to "recover better" from the devastating crisis, in a way compliant with the Agenda 2030 and the Paris Agreement (DG2)

The six discussion groups of the FfD in the COVID-19 era process

1	External Finance and Remittances, Jobs and Inclusive Growth
2	Recovering Better for Sustainability
3	Global liquidity and financial stability
4	Debt Vulnerability
5	Private sector creditors engagement
6	Illicit Financial Flows

Source: United Nations

The working modalities

The working modalities were presented at a virtual 'soft launch' of the DGs on the 24th of June. They have multi-stakeholder character. Each of the discussion groups is composed of representatives of Member States that have an interest in the issue. Private sector and a limited number of civil society participants have been invited to join the groups. Civil society participation is facilitated by the CSO FfD group, in some case complemented by outreach of DG members or staff. Secretariat support is provided by UN bodies, mainly UN DESA (here primarily the Financing for Sustainable Development office), UNCTAD, and the UNDP. At least two co-chairs, all representatives of Member States, head each of the groups and provide political leadership. In most cases, the chair(wo)men are Ambassadors from Permanent Representations at the UN in New York. Some DGs have up to four co-chairs. The UN Secretary General's Special Envoy on Financing the 2030 Agenda (Mahmoud Mohieldin) and his office play an overall coordinating role.

The process runs in two phases: In Phase 1 that lasts from June to September, each group is to hold three virtual meetings. The key output of the groups should be an option paper to be presented at the first key milestone, the Ministerial Meeting on the 8th of September. This meeting will kick off the second phase of the working group process, whose modalities are currently undefined. At a new high-level meeting on the 29th of September, on the margin of the 75th UN General Assembly, the heads of states will be reconvened to take "a decision"[21] on the menu of options.

The remaining part of this briefing paper gives a rough overview of the working group's work so far. All documentation that has been officially disclosed can be found in the sub-section of the UN website dedicated to the process, which also contains a sub-section for each of the DGs where their information can be found.[22]

Group 1: External Finance and Remittances, Jobs and Inclusive Growth

Member State Co-Leads:
Bangladesh, Egypt, Japan, Spain

Member State Participants:
Cabo Verde, China, Haiti, India, Indonesia, Kazakhstan, Malawi, Russia, South Africa.[23]

UN Entity Focal Point:
UNCTAD

Discussion Group 1 combines a larger number of development finance flows, or action areas of the traditional Financing for Development process. The first co-leads' working note released on the 22nd of July indicates that the group discusses

21 The term "decision" is used on the website. This term obviously leaves open what political or legal status the outcome of the head of state meeting shall have.

22 https://www.un.org/en/coronavirus/financing-development

23 Information on member state participants is taken from the DGs' official website: https://www.un.org/en/coronavirus/financing-development. While these state that the list is continuously updated, it does not fully reflect the actual participants in DG meetings so far.

- Private finance and investment, including foreign direct investment, and financial instruments to mobilize private finance
- the role of public investment remittances
- the role of Official Development Assistance and other officially supported resources to the SDGs
- decent jobs and inclusive growth – this, however, with a strong focus on social protection.

What is remarkable in the working note is the strong focus on and abundant space devoted to private finance – as opposed to public finance – within the complex of external finance that the group is mandated to the discuss. The note suggests that mobilizing private finance is a central necessity for recovery and SDG-financing, calls to "develop scalable pipelines of investment-ready projects" and recommends the use of guarantees and even tax incentives to promote private investments. The latter would further reduce countries' fiscal space. In doing so, the note follows a discourse that was prevalent at the OECD and EU ahead of the COVID-19 era, exactly at a time when OECD and EU Member States had rediscovered the role of the active and developmental state during the crisis. Only some caution is raised, e.g. when the note warns about the need to assess the cost of blending versus other financing mechanisms.

The note also finds that 87% to 91% of infrastructure investment is public investment. One recommendation is to (re-)capitalize public development banks (PDBs) appropriately, and to ensure that their governance structures "reflect the current political economy". The costs of remittances should be reduced through greater competition and through digital technologies. The ODA part calls for honoring of commitments, and for using reverse graduation processes to ensure access to concessional finance. The recommendations on social protection are most remarkable. With regard to the limited coverage of social protection systems caused by the inability to finance them in poorer countries, the note suggests a Global Fund for Universal Social Protection financed through global financial transaction taxes and digital taxation.

The first virtual meeting of the group took place on the 28th of July and attracted more than 120 participants. Interventions at the meeting contributed complexity, e.g. by adding even more types of flows such as diaspora financing to the DG`s list. There were strong pushes to honor ODA commitments, and for the state to create better incentives to direct public and private finance to sustainable development. The following meetings are scheduled for the 14th and 27th of August.

Group 2:
Recovering Better for Sustainability

Member State Co-Leads:
Fiji, Rwanda, United Kingdom and European Union

Member State Participants:
Algeria, Bangladesh, Belize, Brazil, China, Denmark, France, Germany, Haiti, Indonesia, Ireland, Italy, Kazakhstan, Malawi, Mexico, Morocco, Republic of Korea, Saint Lucia, South Africa, Russia, Spain and Sweden

UN Entity Focal Point:
UNDP

Discussion group 2 covers the broadest and most abstract theme. It has also amassed the largest number of member state participants, with a disproportionate representation of countries from developed countries, especially Europe, as compared to other groups. The group's theme leans on the currently fashionable "build back better" theme used across the UN system, which aims to promote recovery policies aligned with the SDGs and the Agenda 2030. At the soft launch of the working groups, several speakers flagged that the recovery should be green and resilient, and should help to reduce inequalities.

The group's level of the ambition is not entirely clear. The official summary from the first meeting first keeps expectations low, stating that "the policy recommendations should be practical and pragmatic proposals that will find the necessary political will and can be easily implemented". But it goes on to state that "the recovery should bring about structural changes that create decent jobs, and harness technology for a new development model of social inclusion, equity, environmental sustainability and should have a focus on local needs". The latter obviously implies a more fundamental revamp of the development model pursued in recent decades. In any case, appropriate financing strategies and options should be added to policy recommendations. According to the official summary, the first (virtual) meeting counted 124 total participants, which would make it the largest of the Discussion Groups.

Ahead of the second meeting, which took place virtually on the 5th of August 2020, a "draft summary of menu of policy options" was circulated to invitees. The 18-page document was compiled following inputs received by group participants. It contains in total 244 policy recommendations for different financial sources (such as tax or private investment), different sectors (such as agriculture or health), and different actors ranging from the local governments to central banks and international organizations. The compilation is an informative compendium of contemporary thinking on financing for sustainable development – or at least of the thinking of those stakeholders represented in the group.

Due to the strong representation of UN Member States from developed countries, especially from the EU, the options very much reflect the discourse that took place at EU level in Brussels during recent years: sustainable finance strategies centered around more 'sustainable' private investment, in which the state plays a reductionist role as a market regulator, i.e. by providing soft-law standards for a "green taxonomy". The paper indicates that both more thematic focus and more diverse group membership would be useful for the group.

The second meeting of the group on the 5th of August again counted more than a hundred participants. The question of thematic focus remained challenging. Some representatives demanded an even further expansion of the scope to missing areas such as trade, but finally a decision was made to narrow the policy recommendations down to a shortlist of about 20 or so, at the discretion of the co-chairs.

Group 3: Global liquidity and financial stability

Member State Co-Leads:
Costa Rica and Maldives

Member State Participants:
Antigua and Barbuda, China, Colombia, Haiti, India, Kazakhstan, Malawi

UN Entity Focal Point:
ECA in representation of the Regional Economic Commissions

The third discussion group on global liquidity and financial stability has a much narrower thematic focus than the previous two groups. It discusses a matter of key concern for developing countries as they, in March 2020, fell victim to the fastest and largest wave of capital flight that ever happened within such a short timeframe. However, the group faces two challenges. The first one is how to distinguish its discussion topic from those of Discussion Groups 4 (debt vulnerabilities) and 5 (private creditor participation). To address these challenges, the Groups 3, 4 and 5 held their first meeting jointly on the 16th of July. Only the second meetings were held separately, in the case of Group 3 on the 5th of August.

The second challenge is how to secure good participation. The overall number of participants has not been overwhelming to start with, and initially no single developed country joined the group. Neither did private sector actors. This is unfortunate as it had already been mentioned at the soft launch event that the treatment of developing countries by private rating agencies had been a devastating blow to their governments' efforts to stabilize their finances during the crisis, so there would be a need to bring them to the table. Canada and Russia participated in the second meeting, though.

The second meeting of the Group discussed the impact and feasibility of a number of options based on a technical input prepared by the Secretariat (i.e. UNCTAD). First and foremost were the issuance and reallocation of Special Drawing Rights, a proposal that featured strongly in HLE statements in May. This proposal is deemed the most useful overall. It is however the one where political feasibility ('ease of adoption') is shaky as its implementation implies overcoming the current reluctance of the USA, the only veto power in the IMF Executive Board. In this light, alternatives such as capital account management, addressing liquidity shortages through new swap and repo arrangements between central banks, and the role of IMF emergency lending facilities and regional financing arrangements are also on the group's agenda.

The group also discussed the innovative proposal to establish a multilateral development fund called FACE (Fund Against COVID Economics), managed by the World Bank or several Multilateral Development Banks (MDBs) together. FACE would fund concessional long-term loans to developing countries, free of structural conditionalities. It would be financed by contributions of the most powerful economies, and match developing countries' own resources devoted to post-COVID recovery. FACE should provide financing to the tune of 3% of a beneficiary country's GDP, which sounds ambitious but is well below the fiscal stimulus that most richer countries have already spent at home.

Other participants mentioned that IMF gold sales could generate fresh resources. The establishment of a global rating agency could overcome some of the challenges related to dependence on private rating agencies. One participant stressed that the different policy options were not mutually exclusive.

Group 4:
Debt Vulnerability

Member State Co-Leads:
Netherlands, Pakistan and the African Union

Member State Participants:
Antigua and Barbuda, Belize, Brazil, Cabo Verde, China, Ethiopia, France, Haiti, Kazakhstan, Malawi, Saint Lucia, Senegal, Russia and the United States of America

UN Entity Focal Point:
DESA and UNCTAD

Group 4 picked up a central topic of the May HLE, the question if and how much debt relief is needed, and for whom. The starting point for the group is the G20's Debt Service Suspension Initiative (DSSI), which was launched in April. The first phase of the DG's work, until the Ministerial Meeting in September, is mainly to discuss how to expand the DSSI – with expansion being possible in terms of scope (more debt categories included), eligibility (including (some) middle-income countries), and duration (standstill longer than end-2020). The second phase from September onwards should be devoted to discussing more fundamental reforms related to lending and borrowing and debt restructuring, including of the international financial architecture.

Already at the soft launch, some players argued that there was a need to go beyond debt suspension – a debt operation that simply frees-up liquidity – towards actual debt cancellation, as only cancellation could address a fundamental state of insolvency that many countries might have entered into due to the COVID shock. One of the co-chairs, Pakistan, had made its own proposal for a debt relief initiative earlier this year, which secures strong political leadership for the group. One of the group's co-leads has made clear that the key principle to guide the group's work was that debt could not stand in the way of development. Remarkably, even a major economic power from developed countries announced to join the debt vulnerabilities groups, with the intention to contribute constructively and pursue concrete outcomes, to limit the use of confidentiality clauses in debt contracts so that they become more transparent, and to refrain from collateralized debt contracts which make debt restructurings more difficult.

Group 3, 4 and 5 held their first meeting jointly on the 16th of July. Especially middle income countries such as South Africa supported the expansion of debt standstill agreements to other countries. The need to work with new debt swaps was also mentioned: a share of a country's foreign debt would be forgiven in exchange for investments in, for example, the Sustainable Development Goals. Many expressed their support for the DSSI, and repeated their call that private creditors should participate in the DSSI. Others found that multilateral creditors should participate, a call which triggered debate as some were arguing that it would have an impact on credit ratings and borrowing costs of the MDBs concerned.

The debate about World Bank participation continued at the second meeting, on the 6th of August. This meeting was mainly a panel discussion, where experts presented policy options. These included among others debt buyback facilities, different versions of debt swaps, and also the idea of enforcing comprehensive debt relief through UN Security Council Resolutions (following the precedent of Iraq in 2005), or a debt restructuring framework building its decisions on the human rights based approach. The experts' input enriched the discussions. A Member State representatives, however, reminded the group of the need to come to an agreed set of options within a very short timeframe.

Group 5:
Private sector creditors engagement

Member State Co-Leads:
Antigua and Barbuda and Senegal

Member State Participants:
Brazil, China, Haiti, Kazakhstan, Malawi, Morocco, Saint Lucia

UN Entity Focal Point:
DESA

The participation of private creditors in coordinated debt relief initiatives was mentioned as a central necessity at the HLE in May. Cancellation or at least suspension of payments, not just to bilateral creditors but also to private creditors, is needed on the one hand to create additional fiscal space, and on the other to ensure fair burden sharing among creditor groups. Countries like China and international institutions like the World Bank called early and explicitly for private creditor participation, including at the discussion groups' soft launch. The challenge for the group is that, until now, calls for voluntary private sector participation have not yielded any positive results, and enforcing private sector participation is difficult in light of the absence of effective institutions that can tackle sovereign insolvencies.

The group met jointly with Groups 3 and 4 on the 16th of July, and the second meeting on the 6th of August was held back-to-back with Group 4. Private rating agencies (Moody's) and the major commercial banks' lobby association (the Institute of International Finance, IIF) had been invited and participated in the group early on. The official summary of the first meeting states that, to facilitate private participation in debt relief in the short or long run, "co-chairs saw room for discussions on legal support mechanisms, debt buyback facilities, debt swaps for investments, and reprofiling of debt, including the use of state-contingent instruments".

The question of how to ensure private creditor participation remains unanswered until now. A developed country with strong financial industry presence in its economy advocated voluntary participation. It was also argued that bankers' and fund managers' fiduciary responsibilities and the possible reactions by credit rating agencies made private sector participation difficult. When leading academics spoke at the second session, the tendency was to explain that private creditor participation wouldn't happen voluntarily, which leaves mainly the two policy options to either bail-out or buy-out private creditors with public monies (through debt buyback facilities or the provision of IMF loans), or to create effective institutions that make comprehensive, speedy and orderly debt workouts possible, i.e. to create a sovereign debt workout mechanism.

The IIF itself has produced a term-sheet for private participation in the DSSI, but to no effect in practice. Concerns about how private creditors might react have so far even stopped a large number of DSSI-eligible countries from requesting the bilateral debt standstill that they could enjoy. Representatives of Member States expressed their discomfort with the fact that non-participation by private creditors essentially implied a de facto bail-out. Savings from the DSSI as well as fresh resources provided by the IMF were financing installments paid to private creditors, instead of creating the fiscal space needed to combat COVID-19.

Group 6:
Illicit Financial Flows

Member State Co-Leads:
Barbados and Nigeria

Member State Participants:
Algeria, Bahamas, China, Equatorial Guinea, Haiti, Indonesia, Kazakhstan, Liberia, Luxembourg, Malawi, Mexico, Mozambique, Norway, Papua New Guinea, Russia and South Africa

UN Entity Focal Point:
DESA

Curtailing illicit financial flows (IFFs) has also been identified as a priority area when it comes to creating fiscal space and mobilizing financing to cope with the COVID crisis. Several head of states referred to it at the HLE, and the Ambassador of Nigeria stressed at the soft launch of the discussion groups that, to be effective, IFFs had to be addressed at both ends, in source countries as well as in their destination countries. Such a comprehensive approach requires international cooperation. Nigeria volunteered to co-chair the group, together with Barbados.

Discussion Group 6 runs parallel to an expert panel on Financial Accountability, Transparency and Integrity (FACTI), which deals with similar topics. This panel was established at the UN earlier this year and has started its operations. Since then, several consultations have taken place within FACTI's work, background papers have been commissioned, and the experts had discussions among them. By late September 2020, they are expected to present their interim report. Thus DG6 could build on this work. The relationship between FACTI and DG6 has, however, not been made fully clear so far.

The discussion group met virtually for the first time on the 17th of July 2020. A background document had been circulated earlier to group participants – the group has strong developing country participation. The background paper reminded readers of existing agreements, especially those in the UN's Addis Ababa Action Agenda and the UN Convention on Corruption (many of which await proper implementation). It also mapped current discourses in areas such as withholding taxes, and transparency and integrity, and structural shortcomings that need to be addressed to curtail IFFs. Delegates raised a wide range of options, relating to e.g. tax governance, such as the need to set up an intergovernmental tax body at the UN, or develop a UN

Tax Convention, anti-corruption and asset-recovery measures, or beneficial ownership transparency and anti-money laundering standards.

The second meeting of DG6 took place on the 10th of August 2020. By that time, a matrix of 35 policy options had been compiled, based on the inputs by Member States and other stakeholders. The matrix distinguished between short-term (implemented this year), mid-term and long-term actions. One topic that remained controversial was to what extent the group should build its recommendations on previous work done by regional UN bodies such as ECLAC and UN ECA, and to what extent on that done by parallel organizations with restricted membership, e.g. the OECD.

Another issue discussed that was relevant to all groups was to what extent the options suggested by the group needed to be consensus positions or simply aggregations. The topic of DG6 is particularly sensitive as neither the definition nor the scope of "IFF" is fully agreed, and IFFs are of substantial economic relevance, both for the countries who 'lose' them, as well as for the countries who 'gain' them, or for economic actors within these countries. Despite the large number of developing countries in the group, member state interventions only came from developed countries or G20 members, as well as CSOs and UN organizations.

Conclusion

The coronavirus crisis has been a game changer for the UN's work on financing for development. The need to coordinate a multilateral response boosted the political relevance of FfD on the UN's agenda, and on the international agenda as a whole. The fact that the steps taken by the G20 as a coalition were unimpressive and insufficient created space for the UN as a forum and platform for multilateral dialogue on FfD topics. The fact that no major power came forward to act as an honest broker in this crisis created space for smaller nations to take leadership roles, using their preferred forum, the United Nations.

The coronavirus crisis first hampered the course of the conventional FfD process a lot, especially the course of the annual ECOSOC FfD Forum in April, whose duration was reduced from four days to one hour, and the related negotiations on its outcome document. However, as the crisis evolved, it generated political awareness for FfD topics and provided an opportunity for an expansion of the FfD process. The High-Level Event "Financing for Development in the Era of COVID-19 and Beyond" on 28 May 2020 attracted unprecedented engagement by heads of states. The foundation of six thematic multi-stakeholder working groups realized a long-standing demand by FfD experts, who have argued for having a more continuous engagement and more continuous political dialogue on FfD topics at the UN, rather than just a one-off event once a year in April.

The financing needs of coping with the coronavirus crisis are high, estimated for developing countries at an additional 2.5 trillion US dollars by both IMF and UNCTAD. In terms of concrete mobilization of resources, the UN's 2020 FfD work has not achieved much so far. It did however create new political momentum for major reforms of the international financial architecture. At the time of writing, the discussion group process was still ongoing. An optimal outcome would be if the process were to contribute to both: on the one hand to creating the fiscal space which governments need immediately to cope with the crisis, and on the other hand to carrying out the overdue reforms of the international financial architecture that can make our societies and economies more crisis-resilient in the long run.

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