German Council for
SUSTAINABLE
Development

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The Fourth International Conference on Financing for Development as an opportunity for the international order

Debt reduction and structural reforms for greater justice

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A. Background

The Fourth International Conference on Financing for Development (FfD4) is taking place at a time when international cooperation and the existing world order are facing multiple threats. Firstly, Russia's war against Ukraine is an ongoing violation of international law. It is causing innumerable human casualties and the destruction of infrastructure in Ukraine. In addition, it has drastically disrupted international relations and is absorbing international attention and tying up resources. Furthermore, the US Government under Donald Trump has withdrawn from almost all international commitments and rejects the agreements reached under the 2030 Agenda. With its attempt to force its national decisions concerning unilateral tariff measures onto countries around the world, it has delivered a destructive economic and political shock to the global economy. **In light of this dramatic situation, it is now vital for the countries with an interest in equitable globalisation to utilise the FfD4 Conference to highlight the importance of international cooperation and multilateralism for peacebuilding**.

All in all, the multiple crises together with the geopolitical tensions and conflicts of recent years have increasingly jeopardised implementation of the 2030 Agenda and its Sustainable Development Goals (SDGs) throughout the world. At the current rate of implementation, most of the goals will fail to be achieved by 2030. The latest United Nations progress report from 2024[1] forecasts that only about 17 per cent of the targets will be achieved. Moreover, the funding gap is constantly growing. According to the most recent Financing for Sustainable Development Report, the amount of funding needed to achieve the SDGs has now reached USD 4 trillion per year[2].

The countries of the Global South, in particular, now struggle to finance sustainable development because they are also facing an acute debt crisis, partly caused by taking on additional loans during the COVID-19 pandemic and by high borrowing costs. According to the 2024 Global Sovereign Debt Monitor, 55 per cent of the 152 countries surveyed are critically or very critically indebted.[3] These countries have to make more debt service payments to their creditors than ever before, which as a consequence seriously impedes urgently needed investment in education, health, infrastructure, climate action and the achievement of the SDGs.

Responding to the impacts of the diverse and interconnected crises confronting the world, Our Common Agenda, a report written by UN Secretary-General António Guterres back in 2021, served as a wake-up call to speed up implementation of the SDGs and led to the Summit of the Future held in September 2024. By adopting the Pact for the Future, this summit offered a unique opportunity to breathe new life into multilateral cooperation for tackling current and future global challenges and to initiate reforms in global governance and in particular in the international financial architecture. In December 2023, in parallel with this process, the UN General Assembly had

[1] Sustainable Development Goals Report 2024

[2] Financing for Sustainable Development Report 2024 | DESA Publications

[3] Global Sovereign Debt Monitor 2024

already issued a mandate to make preparations for a follow-up conference on financing for development to be held in 2025.[4] This decision had been pending since 2019 and was therefore urgently needed, given that there are huge gaps in the implementation of the Addis Ababa Action Agenda (AAAA) of 2015.

The upcoming FfD4 Conference will take place from 30 June to 3 July 2025 in Seville, Spain, and the expectations for both the conference and the valuable outcomes that will result from it for future international work are high. That said, it will be taking place in a completely transformed geopolitical context. On the one hand, the conference will be concerned with mobilising additional funding in order to achieve the SDGs and climate targets, and on the other with nothing less than adapting the obsolete economic and financial systems to today's reality within a new global financing framework in order to create fairer structures that are fit for the future. The countries of the Global South, in particular, are placing a great deal of hope in this multilateral UN process. It goes without saying, then, that good preparations for this process are essential if it is to reach an ambitious conclusion. **The outcome of this conference must be to reach a consensus of the willing on the necessary financing and reform of the international financial architecture, partly to achieve the climate and sustainability goals but also to reestablish trust in effective multilateralism**.

B. Recommendations

The German Council for Sustainable Development (RNE) recommends that both in the preparations for the FfD4 and during the conference itself in June/July 2025 and in negotiations within the context of the G7 and G20, the German Government should ambitiously and visibly advocate for the following adjustments, which – from among the large number of recommendations – the RNE considers to be particularly urgent points:

I. **Meet the commitment on Official Development Assistance (ODA) and make the case around the world that development cooperation funding should not be reduced to boost military spending**. The ODA target ratio of 0.7 per cent of gross national income (GNI) that has been in place for industrialised nations since 1970 has not been met by the majority of countries for many years now. The latest provisional ODA figures from the Organisation for Economic Co-operation and Development (OECD) for 2024 indicate that financing from donor countries amounted to only 0.33 per cent of GNI. Only four countries reached the 0.7 per cent target in 2024: Denmark, Luxembourg, Norway and Sweden.[5] Germany allocated 0.67 per cent of its GNI to development cooperation in that year, thereby failing to reach the agreed UN target for the first time since 2020.[6] Against the backdrop of limited budgets in the donor countries, the available resources are not sufficient to match

4 Resolution adopted by the General Assembly on 22 December 2023, Follow-up to and implementation of the outcomes of the International Conferences on Financing for Development, 28 December 2023: https://docs.un.org/en/A/RES/78/231

5 Provisional ODA figures, as at 16 April 2025: International aid falls in 2024 for first time in five years, says OECD

6 BMZ report dated 16 April 2025: German ODA in Detail | BMZ (in German)

the needs and priorities of the developing countries. Added to this is the currently worrying trend of some countries introducing drastic ODA cuts, which could jeopardise important development programmes around the world and exacerbate the escalating debt situation in many countries of the Global South. In these uncertain times more than ever, it is imperative to maintain and strengthen international cooperation in order to preserve the stability of the countries, prevent new conflicts and causes of displacement from arising in the future, and secure and expand economic partnerships. **For this reason, the proposal in section 31 of the First Draft of the Outcome Document of the FfD4 Conference (referred to hereinafter as the 'First Draft') is to be welcomed and is worthy of support in the decision to undertake every effort to reverse reductions in ODA and achieve the ODA commitments**. At the same time, the costs of taking in and housing refugees in the donor countries should be expressly removed from the ODA ratio.

II. With regard to **debt restructuring and debt reduction** for the heavily indebted developing countries, the following points should be urgently supported**:**

- **Further development of the Common Framework for Debt Treatments** for debt rescheduling and debt relief. Adopted by the G20 in November 2020 during the COVID-19 crisis, the multilateral instrument for internationally coordinated debt treatment is an important initiative that builds on the Debt Service Suspension Initiative (DSSI) for low-income countries, which had previously been quickly implemented.[7] For the first time, official traditional bilateral creditors, over and above the Paris Club, also joined major new creditors such as China in approving a joint framework for the coordination of official creditors in order to grant debt relief, if necessary, to developing countries that are eligible for DSSI. In addition, private creditors are new participants in the negotiation process; they are playing an increasingly important role and should therefore be involved. However, this framework is not yet working quickly enough when it comes to implementation. Furthermore, it currently only applies to low-income countries, even though a number of middle-income countries are also battling with huge mountains of debt. **This is why the proposal in section 43a of the First Draft should be supported, calling for the Common Framework for Debt Treatments to be strengthened, in particular by expanding coordinated debt treatments to highly indebted developing countries that are currently ineligible, in other words also middle-income countries.**[8] Similarly, the call for the standardisation of **debt service suspension** during negotiations should be endorsed so that the countries can be given room for manoeuvre in financial policy in order to maintain basic social and economic services. The **debt sustainability assessments** (DSAs) of the countries that are carried out by the International Monetary Fund (IMF) and

[7] The debt moratorium applied to 73 of the poorest countries for a period of 20 months, see German Federal Ministry of Finance – Overview of German debt claims and debt cancellations, Debt relief initiatives – erlassjahr.de (in German)

[8] See also UNDP's call for action: Ballooning Debt Service Payments in Poorest Countries Reach Alarming Levels, UNDP warns | United Nations Development Programme

the World Bank and are essential for the negotiations should also take better account of SDG spending needs and of climate and nature risks, as well as more accurately distinguish between solvency and liquidity (see section 44a of the First Draft). Apart from these proposals in the First Draft, it would also be advisable to **link the debt arrangements to considerations relevant to climate action and, where applicable, to other sustainability-related aspects**.

- The dramatic debt situation currently prevailing in most developing countries also means there is an urgent need for a **new debt relief initiative with the involvement of China**, in order to help the heavily indebted countries to break out of the debt trap.[9] Examples from the past of good ways to go about this are provided by the HIPC Initiative[10] from the end of the 1990s and, building on that, the Multilateral Debt Relief Initiative from the early 2000s. Relief initiatives such as these are highly effective means of helping the debtor countries regain their ability to act and stabilise their economies, which is also likely to be in the interests of the creditor countries. **Advocating a further debt relief initiative is therefore a matter of great political importance and should be an outcome of the FfD4 Conference**.

- **Creation of an effective mechanism for solving government indebtedness**: building on the demands of the Pact for the Future, the initiation of an intergovernmental process at the UN that not only closes gaps in the debt architecture but also explores options to address debt sustainability is to be welcomed (see section 43e of the First Draft). **It would be similarly beneficial to develop a model law on debt restructuring (see section 43b of the First Draft), since a law of this type can provide countries with guidance and certainty at national level when adopting domestic legislation**.

- One important measure that opens up the possibility for developing countries to invest in long-term growth is the **reduction of excessively high costs of borrowing** (see section 42 of the First Draft). A recent analysis by the United Nations Development Programme (UNDP) found that 56 developing countries spend more than ten per cent of their government revenues on interest payments, almost twice as many as ten years ago. Seventeen countries pay more than 20 per cent.[11] This situation must be urgently rectified.

III. **Support for the African Union's newly established African Financial Stability Mechanism** (AFSM) (see section 47l of the First Draft). In February 2025, the African heads of state and government approved the establishment of a continental financial stability fund, which is to be administered by the African Development Bank

[9] The African Leaders Debt Relief Initiative recently called for this in its Cape Town Declaration of 27 February 2025, as did UNDP: Ballooning Debt Service Payments in Poorest Countries Reach Alarming Levels, UNDP warns | United Nations Development Programme

[10] HIPC: Heavily Indebted Poor Countries Initiative. For more information, see HIPC Initiative | BMZ (in German)

[11] UNDP Debt Update: Development gives way to debt | United Nations Development Programme, Policy brief of 25 February 2025

(AfDB).[12] A notable feature of this facility is that it will be given its own credit rating, which will allow it to borrow on international capital markets. The facility is designed to help avert potential debt crises on the continent before they occur. Africa is the only region without its own regional financial stability mechanism for refinancing debt. Membership is to be voluntary and will be open to any member country of the African Union. Provision has also been made for at least 20 per cent of members to be non-African countries, provided that African states retain the majority of the membership. **Swift operationalisation of this facility is now hugely important for the countries of Africa, which are confronted with massive debt problems**. Support from the industrialised countries is therefore urgently required, as this will bring about stabilisation of the countries and growth in the markets too, which is also in the interests of the industrialised nations themselves. Both Germany and the EU should become members of this new facility and thus actively and constructively support the mechanism from the outset.

IV. **Realignment of IMF quotas to achieve equitable distribution** and a strengthening of the representation and voice of the Global South. The present system particularly favours the developed economies and does not reflect today's global economic landscape; it is therefore outdated and in need of urgent reform. The call for the quotas to be adjusted in order to eliminate imbalances has been a topic of ongoing debate for years. **Section 46b of the First Draft includes the obligation to realign the distribution of quotas in order to better reflect the members' relative position in the world economy and in particular enhance the voice of developing countries**. This primarily relates to the basic votes, i.e. the votes that every IMF member is given regardless of its economic weight. Increasing the basic voting rights is a necessary step towards strengthening developing country voice. **It is likewise desirable to offer constructive support for the reforms in the context of the World Bank's ongoing shareholding review that give the developing countries and emerging economies a stronger voice**, for example additional shares, basic voting rights and low-threshold measures, so that these countries can take part in decision-making processes even more effectively (see section 46c of the First Draft).

V. **Efforts to oppose measures that restrict trade or distort competition**. Overall, the aim is to take resolute steps to advocate for a universal, rules-based, non-discriminatory, transparent, open, fair and predictable multilateral trading system (see section 36a of the First Draft) and enable **developing countries to gain swift accession to the World Trade Organization** (WTO) too. The WTO has in effect been blocked for a number of years, with the work of the dispute resolution mechanism in particular being impeded. WTO reforms are therefore essential. Notably, it is important to prevent unilateral measures such as the tariffs recently imposed by the protectionist US Government on other countries, which not only have a negative impact on their sustainable development but also lead to an escalation of the debt crisis in those countries. In addition, **building capacity** for governments of the least developed countries in international trade negotiations must be

[12] Reuters report dated 19 February 2025: African leaders approve creation of financial stability fund | Reuters

encouraged, especially with regard to the tariffs currently levied in contradiction of the WTO rules. **This could be supported by setting up a tariff negotiation facility and should be taken into account in the current WTO reform, as should the strengthening of the development dimension of the international trading system in general**.

With regard to regional trade integration, the consolidation of regional trade agreements and support for ongoing interregional trade agreements would be welcome to promote inclusive growth and sustainable development (see section 36g of the First Draft).

A joint vote by the conference, united against unilateral tariffs in general and the current US tariffs in particular, would be an important signal from the international community. At the same time, a coalition of the willing should push for reforms to the WTO so that the organisation emerges stronger from the process. The aim should be to establish a universal, rules-based, equitable and transparent trading system for the future in the interests of sustainability.

About the German Council for Sustainable Development

The German Council for Sustainable Development (RNE) advises the Federal Government on issues of sustainability policy. It acts in this capacity as an independent entity, and since 2001 its members have been appointed every three years by the Federal Government. The Council consists of 15 public figures, comprising individuals from civil society, the business sector, the scientific community and the political arena. It has been chaired since 2023 by Reiner Hoffmann and his deputy, Gunda Röstel. The Council also carries out its own projects aimed at advancing the topic of sustainability in practical terms. In addition, it helps shape topically focused momentum within policy and societal dialogue. The Council is supported in its activities by an administrative office based in Berlin.

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