STATEMENT BY DR. CARLOS CORREA, EXECUTIVE DIRECTOR OF THE SOUTH CENTRE, TO THE MINISTERS AND GOVERNORS MEETING OF THE INTERGOVERNMENTAL GROUP OF TWENTY-FOUR (G-24)

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The world is facing many long standing and new challenges. Conflicts are escalating, inequalities are widening, debt burden is increasing, climate crisis is worsening and multilateralism is at the brink, yet the world has neither effective frameworks or systems nor required resources to address them. Global economic growth has not yet returned to the pre-COVID level, with low-income countries' gross domestic product (GDP) output still 7.5 percent below the pre-pandemic growth trajectory. Globally, trade and financial fragmentation have been rising. Though inflation is easing from the peak of mid-2022, uncertainties abound, particularly in view of commodity price volatilities owing to heightened trade and geopolitical tension.

Developing countries are still suffering from the negative spillover effects of the rapid interest rate hikes in developed economies via channels including trade, investment, exchange rate, valuation and cost of borrowing. Even though evidences of the large extraterritorial impact of monetary tightening in the advanced countries on developing countries have been well documented, insufficient attention has been paid to formulating policies to mitigate the spillover effects. Slower economic growth and tight fiscal positions have forced these countries to increase borrowing, thus spiraling deeper into the debt trap. Advanced economies can issue debt at very low interest rates and their public debt to GDP ratio is high. However, developing countries, especially vulnerable countries, do not have this possibility and some of them are borrowing at double digit interest rates. It is estimated that low-income countries spent an average of 7.5 percent of their budgets on debt service in 2023, more than their expenditure on health and education combined. With net negative debt flows prevailing in these countries and the resultant mounting liquidity pressures, their spending on climate change adaptation and mitigation is also squeezed or already forgone in some countries.

The global financial safety net has become even more important in the face of net negative financial flows from developing countries, as in this context insurance against crises and short-term liquidity finance are needed the most. As many low income and vulnerable countries have very low foreign exchange reserves and have little or no swap arrangements, the International Monetary Fund (IMF), which is mandated to be the center of the global financial safety net, should inject counter cyclical financing prior to and during such instances to countries expected to face external shocks and cushion off the knock-on effect on the financial system of these countries.

Moreover, the gap for financing for Sustainable Development Goals (SDGs) and for climate change has been getting wider and wider; we have seen the backtrack and the softening of the tone of the development partners on their past pledges and commitments. As of 2024, around half of the 140 SDG targets have deviated from the required path, while some actually regressed. With six years remaining, the window to rescue the SDGs will be closing soon. The Summit on SDGs and the Summit of the Future were expected to open a phase of accelerated progress towards the SDGs. Nevertheless, if means of implementation cannot be boosted, the last dash to 2030 does not appear to be promising.

Currently, about 60 percent of low-income countries are assessed as facing a high risk of debt distress or are already in debt distress.Though only a handful of countries have declared default, it is not a sign

of resilience of developing countries, since some debtor countries, owing to the fear of credit downgrades, would opt for muddling through despite the risk of suffering from the consequences of having debt restructuring too late. Yet, the global financial architecture lacks of mechanisms and tools to effectively resolve these debt problems. While reform of the international financial architecture has been heatedly discussed over the years, including at the Group of Twenty (G20) and during the negotiation process of the Pact of the Future, so far the progress made is far from being meaningful. The Fourth International Conference on Financing for Development, to be held in Spain in mid-2025, provides a unique opportunity to reignite inspirations, solidify commitments and concretize deliverables to reform the international financing architecture and frameworks at all levels.

Quota and voice reform is essential and urgently required for improving and reforming the international financial architecture. The South Centre welcomes the long overdue approval of a third chair for Sub-Saharan Africa on the executive board of the IMF. Further quota realignment that reflects the evolving economic realities of member countries should be implemented in a speedy way.

The IMF's newly announced 36 percent reduction of the surcharges on IMF lending is welcome although the magnitude is too small in view that countries normally request for IMF borrowing as the last resort. Affordable IMF loans at their most difficult time would lower the debt service burden of countries in debt distress and reduce human suffering. It would also be fairer for middle-income countries.

On international taxation issues, non-resident digital companies continue to expand their footprint in many developing countries without paying their fair share of corporate taxes. Therefore, we reiterate that the old-fashioned norm of not creating taxable nexus in jurisdictions where consumers and users are located is grossly unsuitable for the digital age. According to the estimates of the South Centre, the West African Tax Administration (WATAF) and African Tax Administration Forum (ATAF), South Centre and African Union (AU) Member States can on average obtain more than three times the revenues from national measures based on a 5% Digital Service Tax (DST) compared to the Organisation for Economic Co-operation and Development (OECD)'s solution of Amount A of Pillar One. We therefore strongly reiterate our recommendation that developing countries no longer wait and keep losing revenues, and immediately commence with unilateral digital tax measures such as DSTs and consider Amount A only after it has been ratified by major developed countries, particularly the United States.

The South Centre commends the ongoing efforts at the United Nations (UN) to develop a robust and equitable Framework Convention on International Tax Cooperation and the protocol on cross-border services by the timeline of 2027 and to bring it into effect as soon as possible through signature and ratification by all UN Member States. We call on all developing countries to actively participate in the negotiation of the framework convention, and allocate sufficient resources for the participation of delegates, while continuing to work together to strengthen negotiation power to ensure their collective interests and key tax priority areas are addressed. Regarding the protocol on cross-border services, developing countries must ensure its scope covers Automated Digital Services (ADS), which are the key source of revenue for Big Tech multinationals.

We also support the Brazilian G20 presidency's proposal to impose a 2% minimum tax on the wealth of the world's billionaires. Since these billionaires derive part of their wealth from their investments in the Global South, part of the revenues collected through this tax must be redistributed to the Global South.

The United Nations Tax Committee has completed a Fast Track Instrument (FTI). The FTI is a legal instrument that can incorporate the international tax standards of the UN Model Tax Convention into multiple bilateral tax treaties simultaneously, and enable bloc tax treaty negotiations between groups of countries. This can greatly promote the international tax standards of the UN, which can help developing countries raise more revenues. It can also reduce the asymmetry in power in treaty negotiations between developed and developing countries. However, it needs to be converted into a treaty in order to be

implementable. The FTI will be presented to the Economic and Social Council (ECOSOC) in 2025 for consideration, and we call on all G-24 Members to support its uptake and conversion into a treaty.

We note the signing of the OECD Subject to Tax Rule (STTR) Multilateral Instrument by some developing countries in September 2024. However, we reiterate that the STTR version developed by the United Nations Tax Committee will deliver more revenues for developing countries as it is broader in scope, not limited to related party transactions and not crippled by mark-up on costs and materiality threshold which restrict the scope of the OECD STTR.

The South Centre in partnership with the Intergovernmental Group of Twenty-Four will soon come out with revenue estimates on OECD and UN STTR for our 65 combined Member States, and this can provide valuable data for informed decision making on which version to choose.