POLICY BRIEF

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South Centre Inputs to FfD4 Elements Paper - Debt Sustainability, Business and Finance, Taxation

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ABSTRACT

The upcoming 4th conference on financing for development (FfD4) represents an important opportunity for developing countries to achieve a deep reform of the international financial architecture so that it meets their sustainable development needs and enhances the scale of development finance to fully realize the 2030 Agenda for Sustainable Development. Based on the inputs provided by the South Centre to the FfD4 process, this policy brief highlights some of the key messages, problem statements and policy solutions in the areas of sovereign debt, private business and finance, and international tax cooperation that should be considered by the countries of the global South in their deliberations towards achieving ambitious outcomes at FfD4.
KEYWORDS: 4th Conference on Financing for Development (FfD4), Development Finance, Debt Sustainability, Business and Finance, International Tax Cooperation, Sustainable Development, Reform of the International Financial Architecture

La quatrième Conférence internationale sur le financement du développement (FfD4), qui aura lieu prochainement, représente une occasion importante pour les pays en développement de réaliser une réforme en profondeur de l'architecture financière internationale afin qu'elle réponde à leurs besoins en matière de développement durable et qu'elle augmente l'ampleur du financement du développement afin de permettre la pleine réalisation de l'Agenda 2030 pour le développement durable. Sur la base des contributions apportées par South Centre au processus du FfD4, ce rapport sur les politiques met en lumière certains des messages clés, des énoncés de problèmes et des solutions politiques dans les domaines de la dette souveraine, des entreprises privées et du financement, et de la coopération fiscale internationale qui devraient être pris en compte par les pays du Sud dans leurs délibérations en vue d'atteindre des résultats ambitieux au FfD4.
MOTS-CLÉS: *La quatrième Conférence internationale sur le financement du développement (FfD4), le financement du développement, la viabilité de la dette, les entreprises et le financement, la coopération fiscale internationale, le développement durable, la réforme de l'architecture financière internationale*

KEY MESSAGES

- The FfD4 conference is an important opportunity for developing countries to seek the reforms of the international financial architecture and make it responsive to their sustainable development needs.
- Countries are facing an unprecedented level of sovereign debt burden, yet the current international debt architecture remains inadequate for providing effective solutions. Effective and far reaching reforms, including in international finance institutions and credit rating agencies are necessary to promote debt sustainability and macroeconomic stability in Southern countries.
- Foreign investment has remained weak in developing countries, while the urgency to move towards green industrialization has become much greater. FfD4 must seek to provide a strategic focus on key issues of investment in infrastructure, digital finance and strengthening technical capacity of developing countries to attract FDI for sustainable development.
- The international tax system is at a critical juncture. The UN Framework Convention on International Tax Cooperation (FCITC) provides a once in a lifetime opportunity to reform the international tax architecture. FfD4 should boost these negotiations and accelerate the pace towards a fairer international tax system, which can provide much needed revenues for achieving the SDGs.

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La próxima IV Conferencia Internacional sobre Financiación para el Desarrollo (FfD4) representa una importante oportunidad para que los países en desarrollo logren una profunda reforma de la arquitectura financiera internacional, de modo que responda a sus necesidades de desarrollo sostenible y mejore la escala de la financiación del desarrollo con el fin de cumplir íntegramente la Agenda 2030 para el Desarrollo Sostenible. Basándose en las aportaciones realizadas por South Centre al proceso de la FfD4, este informe sobre políticas destaca algunos de los mensajes clave, planteamientos de problemas y soluciones políticas en los ámbitos de la deuda soberana, la empresa privada y las finanzas, y la cooperación fiscal internacional que deberían tener en cuenta los países del Sur global en sus deliberaciones para lograr resultados ambiciosos en la FfD4.
PALABRAS CLAVES: *IV Conferencia Internacional sobre Financiación para el Desarrollo (FfD4), la financiación del desarrollo, la sostenibilidad de la deuda, la empresa y las finanzas, la cooperación fiscal internacional, el desarrollo sostenible, la reforma de la arquitectura financiera internacional*

1. Introduction

The global economic situation continues to remain uncertain, with a slowdown in economic growth. For many developing countries, a number of risks predominate in their current and future economic prospects, including heightened geopolitical tensions, trade fragmentation, higher interest rates, and climate change-related natural disasters.

Attaining the 2030 Agenda for Sustainable Development and implementation of the Sustainable Development Goals (SDGs) remains significantly off-track, given that "on average, only 16 percent of the SDG targets are on track to be met globally by 2030, with the remaining 84 percent showing limited progress or a reversal of progress". The gaps in SDG implementation between countries continue to widen, while the shortfall in SDG investments has grown to $4 trillion per year.

In December 2023, United Nations (UN) Member States decided to come together and convene a fourth international conference on financing for development (FfD4) to, *inter alia*, assess the progress made in the implementation of previous conference outcomes, identify obstacles and constraints encountered in their implementation, and to address new and emerging issues, including the urgent need to accelerate the implementation of the 2030 Agenda and to support reform of the international financial architecture.

The process towards FfD4 commenced with the first meeting of the Preparatory Committee, held in Addis Ababa in July 2024, where the co-facilitators for the FfD4 outcome document (Mexico, Nepal, Norway and Zambia) issued a Call for Inputs to an Elements Paper for the FfD4 conference. In response, the South Centre provided its inputs, focusing on the areas of debt and debt sustainability, domestic and international private business and finance, and domestic public resources. This policy brief is based on the substantive inputs provided, which are addressed thematically below, focusing on some of the key messages, problem statements and policy solutions that should be considered by the countries of the global South in their deliberations for achieving the best possible outcomes at the FfD4 conference.

2. Debt and debt sustainability

Developing countries are facing an unprecedented level of sovereign debt burden, with their external debts growing twice as fast as compared to advanced economies. The United Nations Trade and Development (UNCTAD) has reported that at least half of developing countries are allocating a higher share of their revenues to service their external debt than they spend on health and education. Developing countries also continue facing a negative net resource transfer, paying US$ 49 billion more to their external creditors in 2022, compared to the fresh disbursements received in the same year.

Interest rate hikes by systemically important countries can have extraterritorial impact leading to rising debt servicing cost, currency depreciation, capital outflow and trade as well as output loss among other negative spillover effects in developing countries. The exploding cost of borrowing and debt servicing is the main symptom this time. History has shown incidents of debt and financial crisis in developing countries that were triggered by interest rate increases. However insufficient policy and counter-cyclical measures have been introduced, leaving developing countries to suffer the consequences.

Recent increasing debt service cost and worsening debt vulnerabilities are largely symptoms of the negative impact of rapid interest rate hikes by the United States Federal Reserve (the Fed) and other systemically important countries. Past rate hikes have many times led to financial crises in developing countries. For instance, the Volcker disinflation of the early 1980s was associated with the Latin America financial crisis, which led to a lost decade for some Latin American countries. Similarly, the Asian financial crisis triggered by Fed rate hikes in 1994, collapsed the economies of several East Asian countries for years. Interest hikes by systemically important countries can wipe out massive amount of financial resources from developing and emerging markets, especially those with weak fundamentals. The negative spillover could be like a tidal wave passing through various channels including trade, foreign exchange, consumption, investment and financial channels. This time, net negative debt flows are prevalent in low income countries. The resultant mounting liquidity pressures have already forced a couple of developing countries into default and some countries to raise funds at double digit interest rates in the international capital market. It is important that international policy measures and mechanisms are put in place to address the negative spillover for developing countries. For example, during the 2013 "taper tantrum" episode, developing countries demanded better communication from the Fed. This is important as research findings indicate that when policymakers are able to implement mitigating policies *in anticipation* of the interest rates rise, the negative spillover would be less severe.

The upcoming FfD4 conference offers an opportunity to discuss seriously about policies including multilateral countercyclical injection of liquidity for frontier economies. The International Monetary Fund (IMF), World Bank and regional multilateral development banks (MDBs) must play their role and should not take negative spillover of interest rate hikes as a given and let countries suffer. Efforts should be made to reduce over-reliance on the U.S. dollar as dollar-denominated debt in the world has been increasing fast to the magnitude of 21 trillion dollars and continues to increase.

Strengthening the global financial safety net becomes even more important in the face of net negative financial flows from developing countries (see Figure 1), when insurance against crises and short-term liquidity finance are needed most. As many low income and vulnerable countries have very low foreign exchange reserves and have little or no swap arrangements, the IMF, which is mandated to be the centre of the global financial safety net, should inject counter cyclical financing prior to and during such instances to countries expected to face such external shocks to mitigate the shocks to the financial system of these countries. This time, multilateral lending seemed to have suffered from a time lag of one year or so. Additional concessional and affordable financing from multilateral lenders should be offered. Financial instruments such as debt swaps or credit enhancements to enable the rollover of commercial debt, as well as regional and plurilateral financial contingency arrangements have been utilized on the margin.

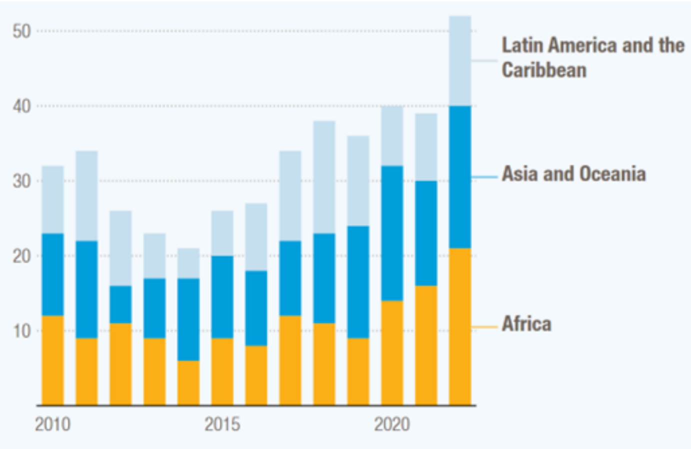

Figure 1-Number of developing countries with net negative transfers on external public debt
Source: UN GCRG - technical team calculations, based on World Bank International Debt Report 2023.
Note: Net transfers are defined as disbursements minus debt service on external public and publicly guaranteed debt.

Improving sovereign debt restructuring and making it more effective and fairer have been a longstanding ambition for developing and least developed countries. The international community wants to establish a mechanism which can create a pathway toward the quick restoration of debt sustainability of insolvent sovereign states through fair burden sharing, including meaningful debt reduction. The Common Framework (CF) is a major international new initiative on debt restructuring developed under the Group of Twenty (G20) in 2020 during the COVID-19 pandemic. It is not like the Heavily Indebted Poor Countries (HIPC) Initiative which has a special financing mechanism from donor money which offered deep haircuts and had a special procedure including Poverty Reduction Strategy Papers (PRSPs). The CF has its own parameters and it was clearly indicated that, "In principle, debt treatments [under CF] will not be conducted in the form of debt write-off or cancellation." The CF has no special carrots nor sticks like the Brady Bond initiative. Therefore, the CF is not a reform outcome of the international debt architecture. It follows the sequential process of the Paris Club debt restructuring. The most outstanding feature of the CF is the participation of the non-Paris Club creditors like China, India and Saudi Arabia.

While the G20 CF is welcome, the framework itself is not a manifestation of the reform of the international debt architecture. The IMF and the Paris Club are in the driving seats for debt restructuring cases under the CF, following closely the traditional Paris Club debt rescheduling procedures and the case-by-case approach; naturally the processes are facing similar challenges. It is urgent to reform the international debt architecture and equip the CF with carrots and sticks as well power to undertake faster debt restructuring with deeper haircuts. Meanwhile, the CF can be improved and made more effective through redefining its terms of reference, clarifying its processes, timelines, definitions and scope of creditors. In addition, calls to expand the CF's country coverage beyond low income countries should not be ignored.

3. Domestic and international private business and finance

3.1. Attracting sustainable foreign investment

Attracting foreign investment is a high priority for developing countries, aiming to leverage inward foreign direct investment (FDI) for their sustainable development. Foreign investors typically consider a number of factors while assessing the viability of their potential investments, including expected returns, market size, availability of labour, regulatory stability and predictability, and sustainability of the investment. All these elements can be strengthened by countries using different regulatory measures to create an attractive enabling environment.

The development of public infrastructure such as roads, ports, telecommunication networks, and energy infrastructure has long been important for attracting FDI in emerging economies. As digital transformation accelerates globally, increasing internet connectivity and digital infrastructure is also becoming essential to attract technology-driven investments. For instance, Malaysia has been successful in attracting large investments for building data centres that support digital industries.

At the same time, human capital development, which contributes to an educated and highly skilled labour force, can also help attract foreign investments in some developing countries, particularly in higher-value industries. Governments should focus on improving quality of education and aligning skills training with industry needs. This must be accompanied with providing workers with access to healthcare and social safety nets, which can create a more stable labour market and increase worker productivity.

Developing countries can also foster their domestic private sector by providing support for startups, and small and medium enterprises, through facilitating access to credit, technology transfer, and market opportunities. Future policy orientation should consider the provision of incentives for attracting FDI in green industries and environmentally-friendly infrastructure which can sustain long-term growth. In addition, policies that promote climate resilience, such as investments in renewable energy or adaptation for mitigating disaster risks, are becoming increasingly important.

While conforming to global trading rules, encouraging diversification in exports through targeted incentives can also help developing economies to reduce their dependence on a narrow range of products (such as raw materials) and make them more resilient to market fluctuations and global crises. Providing sector-specific investment incentives and the use of facilitation measures can also accelerate structural transformation and attract foreign investments in those sectors (see South Centre Research Paper 185).

There is also a need to consider reforming international trade rules to enhance the flexibilities available for developing countries to use targeted measures to foster key industries, especially those aligned with the SDGs and green industrialization. The cardinal principle of special and differential treatment (S&DT) should be strengthened for allowing developing and least developed countries to implement trade and industrial policies that align with their sustainable development needs. This could include creating carve-outs for developing countries to implement local content requirements[1] in strategic sectors.

Developing countries should champion the incorporation of provisions in international agreements that promote trade in environmental goods and services, and facilitate the transfer of technology such as in areas like renewable energy. This would give them better access to affordable green technologies and support their energy transition. In addition, future trade and investment agreements should include provisions that encourage responsible investment practices, such as by having obligations for foreign investors. This has already been included in Part V of the Protocol on Investment to the Agreement establishing the African Continental Free Trade Area (AfCFTA), adopted in 2023. Furthermore, regional trade agreements like the AfCFTA can also be harnessed by developing countries to enable coordination of regional industrial policy and sustainable development, particularly for industries like renewable energy, water management, and agriculture. Deepening the localization of value chains can also help developing countries capture more of the value added within their regions.[2]

Providing capacity building and technical assistance to developing countries for reducing foreign trade barriers and facilitating investments can also help them participate more effectively in global value chains. International organizations should support their efforts in this regard, especially for green industrialization and the energy transition. This can also include providing training for using intellectual property (IP) flexibilities in areas like renewable energy, climate adaptation, and public health, so that developing countries have the policy space to adapt, utilize and improve on such technologies for their sustainable development.

3.2. Mobilizing private finance for sustainable development

At the multilateral level, lowering barriers for developing countries to access capital requires a concerted effort from various actors, including the reform of international financial institutions (IFIs). In the short term, this includes improving sovereign credit ratings by addressing biases in rating methodologies that often unfairly penalize developing and least developed countries. Development finance institutions (DFIs) should be further mobilized to help catalyse private investment in developing countries by offering concessional financing, guarantees, and co-investment opportunities. In addition, credit guarantees and risk mitigation instruments provided by organizations like the Multilateral Investment Guarantee Agency (MIGA) can help reduce the perceived risks of investing in developing countries.

Promoting digital finance solutions such as mobile banking can also help expand access to capital for both firms and people in developing countries by providing more affordable and inclusive financial services, reducing transaction costs and lowering the barriers to entry into the formal financial system. For example, the introduction of 'M-pesa', a SMS-based mobile money service led to financial inclusion in Kenya reaching 84 percent of the population in 2021. Such efforts should also be accompanied with technology transfer and knowledge sharing for developing digital financial infrastructure. India has shared 'India Stack', its homegrown digital public infrastructure with ten developing countries, aiming to "close gaps in financial inclusion, boost government revenue collection and improve public expenditure efficiency". The international community can further support such technology transfer initiatives to digitize financial systems in developing countries and make credit more accessible and affordable.

3.3. Improving project pipeline preparation

Project pipelines are used to denote investment opportunities in assets or projects under development, and are commonly used to attract and mobilize resources at the domestic and international level. Having a strong project pipeline can help countries by providing a number of projects that are viable for funding and implementation. This has gained even more impor-

1. A waiver or review of the World Trade Organization (WTO) Agreement on Trade-Related Investment Measures (TRIMs) would be required to give legal certainty and promote investments with local content requirements in the supply chain.

2. Initiatives like the plurilateral Investment Facilitation for Development (IFD) Agreement could also play a role in this context.

tance in recent years as projects on climate change mitigation and adaptation, and green industrialization have become urgent priorities for developing countries, as well as for international funding partners. However, many developing and least developed countries often lack the technical expertise needed for detailed project preparation and implementation, especially in technologically advanced sectors.

Addressing this gap requires the international community to collaborate towards ensuring that the requisite skills, financing and technologies are made available to emerging economies building project pipelines. International organizations can provide technical assistance, training and capacity-building programs to enhance the skills of government officials and local institutions for conducting, among others, feasibility studies, cost-benefit analysis, and environmental impact assessments. For example, the Green Climate Fund provides financial and technical assistance for developing countries in the preparation of climate-related project and programme funding proposals. Specific training can also be provided on topics like project managemen-t,procurement, and incorporating disaster resilience and risk reduction into project design. These efforts could be further enhanced by providing platforms for knowledge sharing, and conducting peer exchanges for sharing best practices in developing countries.

The establishment of national and regional project preparation facilities (PPFs) can help developing countries access technical and financial support for preparing projects which can attract investment and contribute to sustainable development. For instance, the Latin American Investment Facility (LAIF) aims to streamline project pipelines across the Latin America and Caribbean region by providing tailor-made technical assistance to meet specific project needs during both design and implementation phases. This includes providing investment grants that can finance specific components of a project or a proportion of the total project cost, thereby reducing the amount of partner country debt. It also provides access to financial instruments such as debt, equity and guarantees, which can mobilize additional funding from other entities.

Similarly, DFIs should increase their assistance to developing countries in de-risking projects through providing more risk guarantees, political risk insurance, or first-loss provisions. Having access to grants and concessional financing for early-stage project development, such as during the feasibility studies or design process is important for ensuring projects are viable and sustainable, even before they reach the funding stage.

Developing countries should also increase their collaboration with international organizations to identify potential cross-border projects, such as regional energy grids or transport corridors. In this context, regional bodies can play key roles in coordinating and facilitating project pipelines for regional infrastructure projects. For instance, the African Development Bank's Program for Infrastructure Development in Africa (PIDA) is a continental level initiative that mobilizes resources for cross-border infrastructure projects covering sectors like energy, water, transportation and information and communication technologies.

Finally, it is useful to establish Monitoring and Evaluation (M&E) systems for project pipelines, that can be used to track project pipeline development from inception to completion. Effective M&E systems can improve project design, assess impact, and increase accountability, helping boost investor confidence in future projects. In addition, analysing the lessons learned from past projects will allow countries to refine and enhance their approach to future project preparation.

3.4. Aligning business and finance with sustainable development

Aligning the private sector with sustainable development requires adopting a holistic approach that considers the interests of all stakeholders. A number of measures have been adopted by both governments and enterprises in recent years to assess and report the sustainable development impact of business. Particular attention has been given to the reporting of environmental, social, and governance (ESG) impacts of business, as well as increasing use of mandatory corporate sustainability reporting directives (CSRD), such as the one recently adopted by the European Union (EU).

Currently, reporting on ESG, corporate sustainability as well as Corporate Social Responsibility (CSR) initiatives suffers from some major weaknesses. First is that they are largely voluntary in nature. This could be addressed by governments and regulatory bodies making it mandatory for companies to report their ESG impacts and undertake CSR. The Indian Companies Act of 2013 provides for mandatory implementation and reporting of CSR for eligible companies. Such information is further disseminated through a National Corporate Social Responsibility Data Portal, which increases the transparency and streamlining of such data. Similarly, the EU CSRD also requires companies to disclose the impact of their activities on people and the environment. Such enhanced transparency can also help companies in attracting more ESG-conscious long term investors.

Second, the access to credit for enterprises still relies almost exclusively on their ability to be profitable and pay back. This results in sustainability and ESG elements not being considered when assessing credit-worthiness. Financial regulators should integrate sustainable development into their supervisory frameworks, ensuring that banks and asset managers consider ESG in their lending and investment decisions. Many institutional investors such as pension funds operate under fiduciary duties that prioritize short-term financial returns. Reforms to such criteria could explicitly require the inclusion of ESG in investment decision-making. Some investors have already taken this approach, divesting from investments with ESG concerns. For instance, the Norwegian sovereign fund has divested from a number of companies that it perceives as posing ESG risks and identified companies with heightened risks, including potential violations of human and labour rights.

Third, the lack of consistency in ESG and sustainability reporting standards across jurisdictions poses challenges to both companies and regulatory, and can lead to greenwashing. A lack of standardized reporting frameworks allows companies to selectively report their ESG impacts. Many developing countries do not have any guidelines for ESG reporting by companies. Even when they do, enforcement remains a significant challenge for regulators. While harmonizing sustainability reporting standards globally could ensure consistency, transparency, and comparability across jurisdictions, currently there is no legally binding mechanism in place for this process. Initiatives like those by the International Sustainability Standards Board (ISSB) and the Global Reporting Initiative have considered the development of a global baseline for sustainability reporting, but broader adoption and subsequent enforcement are necessary.

Governments can also increase alignment of the private sector with climate goals and SDGs by adopting green finance taxonomies (sometimes also referred to as sustainable/climate finance taxonomies). These taxonomies provide guidelines on what constitutes "susnesses to meet before labelling products or services as "green" or "sustainable". A number of developing count-ries have already adopted green finance taxonomies, with efforts also underway at the regional level in the Association of Southeast Asian Nations (ASEAN) and in Latin America and the Caribbean. However, as the risk of fragmentation and incompatible standards across countries also exists, greater international cooperation is required to ensure that green taxonomies being developed are both legally binding and interoperable across jurisdictions.

Once the necessary legal and policy frameworks are put in place, countries should also consider having penalties for companies engaging in greenwashing. This can include fines, legal actions, and public naming and shaming, among others. Such enforcement could deter companies from making misleading claims regarding the sustainability and climate impacts of their products. At the same time, regulatory bodies must be empowered to investigate and act upon misleading sustainability claims by companies.

Already, consumers have taken the lead and filed lawsuits regarding greenwashing by companies. In the case of *Fossielvrij v. KLM* filed in the Netherlands, the court found that in its advertisements, KLM "made environmental claims that are based on vague and general statements about environmental benefits, thereby misleading consumers. In other communications, KLM paints an overly rosy picture of the consequences of [the] measures" it has taken regarding sustainability. Another lawsuit has been filed by the U.S. state of California against oil companies for deceptive practices and misleading advertising, which is alleged to have caused billions of dollars in health and environmental impacts over five decades. Further efforts can be made to ensure that companies are held accountable for failing to meet their publicly stated sustainability targets and pay commensurate penalties.

Finally, for avoiding fragmentation in sustainability ESG reporting regulations, it is essential to engage in multilateral discussions on the issue. At FfD4, strengthening international collaboration through the United Nations could promote the alignment of sustainability-related legislation across countries. International organizations can also provide technical assistance, training and knowledge sharing to help developing countries build capacity for enabling and enforcing ESG reporting by national and multinational firms (see South Centre Policy Brief 126).

4. Taxation and domestic public resources

There needs to be urgent reform to the international tax system, so developing countries are able to more effectively crackdown against illicit financial flows generated by tax avoidance and evasion. More fundamentally, there needs to be a genuinely inclusive and effective international tax governance architecture so developing countries can be equal participants in agenda-setting and decision-making and devise equitable solutions to current and future problems of international taxation. In this context, there needs to be a strong commitment by all UN Member States to complete the negotiations on the UN Framework Convention on International Tax Cooperation (UN FCITC) and the protocol on cross-border services by the timeline of 2027 and to bring them into effect as soon as possible through signature and ratification. The UN FCITC can provide a fair, effective and inclusive governance architecture for the international tax system. The protocol on cross-border services, which includes digital services, can finally provide the world with a viable solution for the taxation of the digital economy.

The issue of taxing cross-border digital services is particularly urgent. Big tech firms like Amazon, Google etc. continue to derive enormous revenues from developing countries while paying minimal taxes. Negotiations on the Organisation for Economic Co-operation and Development (OECD) solution for taxing the digital economy, known as 'Amount A', have been continuing for more than 12 years, with no end in sight. Further, the revenue estimates are minimal. In June 2024, the South Centre, in partnership with the West African Tax Administration Forum (WATAF) and the African Tax Administration Forum (ATAF) released country-level revenue estimates for the 55 Member States of the South Centre, and 54 Members of the African Union (AU), which are a combined total of 85 developing countries (see South Centre Research Paper 199). The results show that for the year 2022, the 85 combined Members of the South Centre and the AU can expect between EUR 20-34 billion from a 5% Digital Services Tax (a commonly used national measure) compared to EUR 7-10 billion in revenues from the OECD solution of Amount A. Thus, developing countries can on average obtain more than three times the revenues from Digital Services Taxes (DST) compared to the OECD's solution.

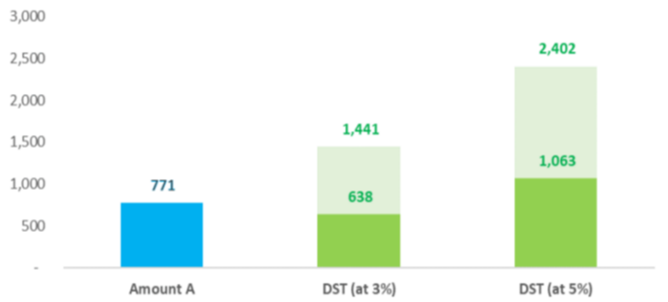

Figure 2: 2022 Tax Revenue Estimation under Amount A vs. DST Regimes for African Union Members (EUR Millions)
Source: *South Centre, ATAF & WATAF (2024)*

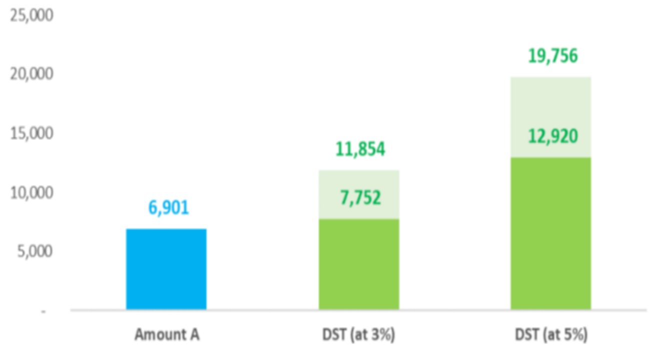

Figure 3: 2022 Tax Revenue Estimation under Amount A vs. DST Regimes for South Centre Members (EUR Millions)
Source: *South Centre, ATAF & WATAF (2024)*

Furthermore, commitment is also required to translate the UN Tax Committee's Fast Track Instrument (FTI) into a treaty, either stand-alone or as part of the UN FCITC. 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 level tax treaty negotiation between groups of countries. This can greatly promote the adoption of international tax standards of the UN, which can help developing countries raise more revenues. It can also reduce the asymmetry in power in tax treaty negotiation 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 support is needed from countries for its uptake and conversion into a treaty.

Other issues that could be considered in the context of FfD4 include the promotion of international cooperation for the effective taxation of high net-worth individuals (HNIs), including through promoting the guidance contained in the UN Handbook on Wealth and Solidarity Taxes and the upcoming UN Template Law on Wealth Taxes. Part of the revenues collected through these taxes should be redistributed to the countries of the global South.

There are already ongoing efforts to mandate public disclosure of country by country reporting of how much tax multinational enterprises pay in the jurisdictions where they operate. A similar form of reporting can be considered for HNIs, especially individuals with billions of US dollars in wealth and assets. There should also be an inter-governmentally agreed understanding that tax avoidance is a part of illicit financial flows. This can put an end to the argument made that tax avoidance is permissible because it is "legal".

Finally, FfD4 could consider initiatives towards making transfer pricing comparables data a global public good, which would be accessible to developing countries for free. Transfer pricing rules are a major tool in the fight against tax avoidance by multinational enterprises. However, applying them effectively requires access to databases which are controlled by an oligopoly and are prohibitively expensive. The relevant data should be transformed into a global public good, produced by the United Nations, and made available to developing countries free of charge.

5. Final remarks

To maintain debt sustainability is still a major challenge for developing countries, especially the frontier economies. Currently, developing countries are facing an unprecedented level of sovereign debt burden. Recent increasing debt service cost and worsening debt vulnerabilities are largely symptoms of the negative impact of rapid interest rate hikes by systemically important countries. With gaps in the global financial safety net, interest rate hikes could lead to debt distress in some vulnerable countries. Improving sovereign debt restructuring and making it more effective and fairer have been a longstanding ambition for developing and least developed countries, as debt crisis is a recurrent phenomenon. In recent years, the G20 Common Framework has been at the centre of processing sovereign-debt restructuring. However, the CF is not a new debt-restructuring mechanism; rather, it is an agreement to follow old Paris Club principles, practices and procedures for debt restructuring presided over by the Paris Club and the IMF. The criticisms of the CF clearly show the strong desire for reform of the international debt architecture.

Attracting FDI for sustainable development remains a top policy priority. Countries should consider enhancing their infrastructure, upskilling human capital, and providing regulatory certainty while incentivizing green industries and export diversification to attract foreign investments that are aligned with their national climate and sustainable development goals.Mobilizing DFIs and leveraging digital financial solutions can expand access to capital and catalyze investments in sustainable development initiatives. Deep reform of IFIs and increasing their alignment towards meeting financing gaps remain vital for developing and least developed countries. At the national level, strengthening technical expertise, fostering regional collaboration, and implementing robust risk mitigation and monitoring systems can support developing countries in building viable project pipelines for attracting investments in critical sectors. Significant support by the international community and multilateral organizations towards technical assistance and capacity building is required in this endeavor.

The international tax system is at a critical juncture. The UN Framework Convention on International Tax Cooperation (FCITC) provides a once in a lifetime opportunity to reform the very basis of the governance of the international tax architecture which is an essential precondition to producing fair and equitable rules. The FFD4 Conference can boost these negotiations and accelerate the pace towards a fairer international tax system, which can provide the much needed revenues for achieving the SDGs.

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Towards a Balanced WIPO Design Law Treaty (DLT) for Developing Countries by Nimalya Syam

The South Centre is the intergovernmental organization of developing countries that helps developing countries to combine their efforts and expertise to promote their common interests in the international arena. The South Centre was established by an Intergovernmental Agreement which came into force on 31 July 1995. Its headquarters is in Geneva, Switzerland.

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