Inputs for an Elements Paper on Financing for Development by Club de Madrid

In response to the invitation from the Co-Facilitators of the Outcome Document of the Fourth International Conference on Financing for Development (FfD 4), Club de Madrid is pleased to submit its contribution to support the substantive preparations for the Conference.

Club de Madrid's proposals focus on concrete and actionable measures aimed at strengthening global financial governance, enhancing accountability and transparency, and promoting inclusive and equitable development financing. These recommendations seek to contribute to the development of an Outcome Document that addresses the most pressing challenges in financing sustainable development and supports the reform of the international financial architecture, in alignment with the objectives of the 2030 Agenda.

The proposals presented here have been developed as part of the preparatory process for Club de Madrid's Annual Policy Dialogue on Financing for Development, ensuring they reflect a broad and informed perspective on the issues at hand. Club de Madrid gratefully acknowledges the collaboration and contributions of key partners in the development of several of these proposals. In particular, we extend our appreciation to the **Global Development Policy Center at Boston University**, the **South African Institute of International Affairs (SAIIA)**, and **José Antonio Ocampo**, whose leadership and expertise were instrumental in shaping several of the policy recommendations presented in this document.

A Global Financing Framework

-FfD 4 represents an opportunity to address the gaps and shortcomings in development finance, climate action, and the broader financial global governance system. In this regard, a robust political ambition to adequately finance development, nature, and climate action must be at the heart of the conference outcomes.

This ambition should pave the way for mobilizing the necessary financing to achieve the Sustainable Development Goals (SDGs) by 2030, empower all countries to fund climate resilience and sustainable development, and set clear and actionable expectations for the implementation of the commitments made during this conference.

-FfD 4 must reaffirm and strengthen the UN's commitment to human rights, which are universal, indivisible, interdependent, and interrelated. This conference should help States fulfill their obligation to mobilize maximum resources and align the international financial architecture with the full spectrum of human rights—including economic, social, cultural, environmental, and political rights, as well as the right to development and the right to a clean, healthy, and sustainable environment. All financing initiatives should ensure that principles of equality, non-discrimination, participation, transparency, and accountability guide decision-making, with particular attention to the most vulnerable groups. Human rights, environmental sustainability, and gender equality must be central to all financing for development strategies.

- Since the adoption of the SDGs in 2015, the global community has faced numerous challenges that have hindered progress towards achieving these ambitious goals. Today, an estimated 85% of the SDGs are off track, stagnating, or regressing, with significant shortfalls in areas like poverty reduction, climate action, and inequality. One of the most pressing needs is to bridge the financing gap, which is estimated to require between $3-4 trillion USD annually to meet global development and climate objectives by 2030. Developing countries, in particular, face severe challenges due to limited access to affordable financing, rising debt burdens, and insufficient domestic resource mobilization, which undermine their capacity to invest in critical sectors like health, education, infrastructure, and climate resilience. The COVID-19 pandemic exacerbated these issues, deepening inequalities and widening the financing gap.

-FfD 4 must develop and promote policies that prioritize financial inclusion, ensuring that all individuals—regardless of gender, social status, age, financial literacy, or technological skills—have access to essential financial tools. This inclusive approach is critical to building a rights-based economy, where gender equality is central to financing decisions and development outcomes are equitable and just. FfD 4 should pave the way for policies that address the financial needs of all vulnerable groups, fostering a more inclusive global financial system that leaves no one behind.

-FfD 4 presents a critical opportunity to lay the groundwork for ambitious outcomes in the upcoming World Social Summit. FfD 4 should focus on ensuring that financing for social development aligns with global commitments to universal social protection, inclusive education, healthcare, and decent work for all. The outcomes of FfD 4 must help shape the global agenda and prepare the path for the negotiations leading up to the World Social Summit, reinforcing the call for a New Social Contract as outlined in "Our Common Agenda." This will ensure continuity and coherence between global financial commitments and social development objectives.

-While respecting the mandates of all involved organizations, FfD 4 must underscore the legitimacy of the United Nations in the realm of development and climate financing. By reinforcing the UN's leadership, the conference can ensure the equitable participation of all countries in multilateral processes. This will foster coordinated and effective global action, aligning the initiatives of various stakeholders and enhancing the impact of collective efforts in addressing the most pressing global challenges. Strengthening the UN’s role is essential for driving inclusive, transparent, and fair development financing solutions that are critical for achieving the Sustainable Development Goals (SDGs) and advancing climate action.

II. Action Areas

a. Domestic Public Resources

FfD 4 provides a crucial opportunity to contribute towards building consensus around key issues in international tax cooperation. The conference can help advance discussions and agreements on:

1. Fighting harmful tax practices: combating tax evasion, money laundering, and capital flight. This requires international cooperation to address transparency and challenging—and hopefully eliminating—tax havens. It also requires significant efforts to address the recovery and repatriation of assets from illicit financial flows, as they represent a significant loss of revenue worldwide.

2. Adequate taxation of the profits of Multinational Corporations (MNCs), including but not limited to a fair reallocation of taxing rights between countries. This could be underpinned by the principle of unitary taxation and formulary apportionment of all large MNCs' profits across different jurisdictions. This would require the development of a nexus rule based on the principle of significant economic presence, whereby a taxable presence will be created in the country when a non-resident enterprise has significant revenue-raising business activities. It should involve the coordinated taxation of windfall or excess profits, including strengthening anti-avoidance instruments, such as a 25% global effective minimum tax on the profits of MNCs.

3. Common principles and minimum standards for the taxation of the income of the world's super-rich and all countries' very rich individuals, including anti-avoidance instruments such as a global minimum tax on their income. The proposal of a minimum tax on the super-rich and very rich could also be negotiated as one of the early protocols of the UN Convention, hopefully after an agreement in the G20. This should be complemented by the commitment of all countries to adopt the taxation of wealth, inheritances, and appropriate taxation of capital gains as complements to the taxation of income. These should be seen as leading policies to tackle world inequality.

4. Common principles and minimum standards for ensuring transparency of wealth ownership, including through the creation of a global asset register that identifies final beneficial owners of all assets, combining public data components and components held privately for tax authorities and other enforcement bodies. The associated information should be publicly available, researchable, and machine-readable. Ownership transparency is essential to tackle illicit financial flows and can facilitate the return of stolen assets.

5. The development of coordinated mechanisms for digital services taxes.

6. Clear criteria for taxing activities associated with the exploitation of natural resources. In particular, developing countries should avoid giving tax benefits for MNCs exploiting their natural resources. They should complement income taxes with royalty payments, strong regulations, and by creating additional green taxes on carbon emissions and contamination.

7. Bringing tax policy issues into the negotiations on climate change. This could include earmarking green tax receipts to support the advancement of national climate goals, possibly through the integration into tax regulations of the Nationally Determined Contributions (NDCs) agenda. This should also include the establishment of global sectoral green taxes (e.g., on maritime shipping or the aviation sector), the widespread introduction of carbon taxes and/or regulated carbon markets, the definition of development-adjusted carbon price floors, and avoiding the subsidization of fossil fuels.

8. Public country-by-country reporting of MNCs' economic activities based on the robust Global Reporting Initiative for public reporting on taxes. The relevant information should be publicly available.

9. Guaranteeing effective exchange of information among tax authorities, not only among the Global North countries but also with the Global South.

c. International Development Cooperation

FfD 4 should contribute to the discussions related the urgent need to scale up funding through Multilateral Development Banks (MDBs). MDBs are crucial in providing affordable, long-term financing to developing countries, supporting their efforts to achieve the Sustainable Development Goals (SDGs) and adapt to climate change. However, current MDB funding levels are insufficient to meet the estimated $3-4 trillion needed annually to address global development and climate challenges.
The conference can help advance discussions and agreements on:

1. **Implementation of the G20 Independent Panel Recommendations**: The G20 Independent Panel's recommendations for MDBs' Capital Adequacy Frameworks (CAF) must be fully implemented. By optimizing MDB balance sheets and providing hybrid capital—including the use of Special Drawing Rights (SDRs)—MDBs can expand their lending capacity significantly. This is crucial to ensure that MDBs are equipped to meet the growing demands for financing by 2030, especially in areas such as climate resilience, infrastructure, and inclusive economic growth.

2. **Regular Resource Needs Reviews**: MDBs must conduct regular resource needs reviews to assess financing requirements and ensure that they are collectively capable of delivering an additional $300 billion annually by 2030. This financing must be affordable and aligned with debt sustainability to prevent developing countries from falling deeper into debt traps. Regular reviews will enable MDBs to adapt to evolving global challenges and ensure that their lending supports long-term sustainable development goals.

3. **Increase in Concessional Financing**: A significant stepwise increase in concessional financing is critical. This includes securing at least $120 billion in replenishments for the International Development Association (IDA) during its 21st cycle and ensuring an ambitious replenishment for the African Development Fund in 2025. Regular replenishments for concessional lending arms, anchored in the resource reviews, will allow MDBs to meet development and climate goals more effectively. These resources are particularly crucial for low-income countries, which rely heavily on concessional financing to fund essential development projects.

FfD 4 should also address the urgent need to improve the scale and efficacy of international liquidity provisions, which are critical for helping developing countries manage financial shocks and crises. Many countries, particularly in the Global South, face severe liquidity constraints in times of economic, health, or climate-related crises, limiting their ability to respond effectively without incurring unsustainable debt.

The conference can help advance discussions and agreements on:

1. **New Issuances of Special Drawing Rights (SDRs):** FfD 4 should advocate for new issuances of SDRs at the International Monetary Fund (IMF) in 2025. A significant portion of these SDRs should be re-channeled to provide liquidity financing for countries in need, as well as hybrid capital for MDBs to strengthen their lending capacity. Re-channeling SDRs to developing countries will provide them with a critical financial buffer in times of crisis and support their long-term development efforts.

2. **IMF Quota Increases and Emerging Markets Fund**: There is an urgent need for further IMF quota increases by the end of the 17th General Review of Quotas. Additionally, the creation of an IMF-managed emerging markets fund should be considered to enable

early access to liquidity financing for developing countries. This fund would provide financing at below-market rates, helping countries manage currency fluctuations and climate risks without the burden of stringent conditionalities. This would also prevent the need for countries to resort to high-interest loans from private creditors.

3. **Expansion of Regional Financial Arrangements**: Expanding Regional Financial Arrangements (RFAs) is crucial, particularly in regions like Africa, where the Global Financial Safety Net remains thin. Strengthening RFAs would provide countries with regionally tailored support, allowing for quicker and more effective responses to financial and climate crises. This regional approach, combined with global liquidity provisions, would create a more resilient financial system that better serves developing nations.

e. Debt and Debt Sustainability

FfD 4 presents an opportunity to address the current sovereign debt crisis and develop solutions to prevent future crises. FfD 4 can foster reforms and coordinated approaches to debt restructuring that support both immediate relief and long-term financial stability.

The conference can help advance discussions and agreements on:

1. **An Independent Sovereign Debt Authority:** In light of the increasingly diverse composition of creditors, where the Paris Club no longer holds dominance, FfD 4 should explore the establishment of an independent sovereign debt authority to coordinate and guide sovereign debt restructurings. This body could either be a new entity or embedded within existing multilateral organizations, tasked with improving the fairness and efficiency of debt negotiations.

   The debt authority would provide essential technical and logistical support during restructuring processes, including conducting debt sustainability analyses that inform negotiations. By ensuring impartial guidance, this authority would enhance the current debt restructuring framework, speeding up negotiations and improving outcomes for debtor countries. Such a body would be crucial in bringing fairness to these processes, ensuring that developing countries, particularly those in debt distress, can navigate negotiations more effectively and reach sustainable solutions that protect their development prospects.

2. **Addressing the Causes of Debt Accumulation in Developing Countries:** International efforts must also focus on addressing the underlying causes of debt accumulation in developing countries. The current global financial architecture makes it difficult for these nations to access affordable financing outside of concessional loans from institutions like the WB and the IMF. As a result, many developing countries face rapid debt accumulation, which has adverse fiscal effects on economic growth. To tackle this issue, the following actions must be prioritized:

   -Reforming the Credit Ratings System: The cost of credit is heavily influenced by a country's credit rating, and many developing countries are rated low, often unfairly. The current credit rating system is dominated by agencies based in the Global North, which fail to consider the unique challenges and contexts of developing economies. These ratings tend to overstate risks and apply criteria better suited to advanced economies. Reforming the credit rating methodology to better reflect the realities of developing countries would reduce borrowing costs and improve access to affordable financing, enabling these nations to invest in sustainable development without excessive debt accumulation.

-**Promoting the Use of State-Contingent Debt Instruments (SCDIs):** State-contingent debt instruments (SCDIs) offer a flexible solution that links debt service payments to a country's ability to pay, helping to prevent temporary liquidity problems from becoming solvency crises. SCDIs, such as those with natural disaster clauses, provide temporary debt service relief when countries face external shocks like climate disasters. This gives developing countries crucial fiscal space without requiring a full debt restructuring. As climate risks and other shocks increase, promoting the use of well-designed SCDIs in debt restructurings could significantly enhance long-term debt sustainability, reduce default risks, and improve fiscal resilience.

-**Increasing Availability of Concessional Financing by International Financial Institutions (IFIs)**: Redirecting developing countries towards concessional financing is essential for reducing future debt vulnerabilities. Scaling up MDB lending is a key component of this effort. Implementing the recommendations of the G20 Independent Panel for Review of MDBs' Capital Adequacy Frameworks (CAF), which includes optimizing MDB balance sheets and utilizing hybrid capital such as SDRs**,** would increase the capacity of MDBs to provide concessional financing. This would allow developing countries to finance their development needs without accumulating unsustainable debt. Therefore, continuing to prioritize these recommendations within the G20 and Bretton Woods institutions is essential for ensuring long-term financial stability and sustainable growth for developing economies.

3. **Promoting Responsible Lending by Creditors:** A more balanced approach to debt management must acknowledge the shared accountability of both lenders and borrowers. To prevent unsustainable debt and promote ethical financial practices, responsible lending principles must be integrated into the global debt relief and prevention framework.

   -Promoting Guidelines and Principles of Responsible Lending: Strong guidelines for responsible lending, including comprehensive assessments of a country's ability to repay and the impact of loans on development goals, should be central to the lending process. The 2012 UNCTAD guidelines and the UN principles on responsible lending and borrowing adopted in 2015 must be widely promoted and implemented as part of global debt prevention efforts. These guidelines emphasize the need for creditors to ensure that lending practices do not compromise the long-term financial stability or development prospects of borrowing countries.

   -Mechanisms for Creditor Transparency and Accountability: To foster trust and ensure responsible lending, mechanisms that promote transparency and accountability among creditors must be established and adhered to. This includes requiring creditors to disclose key loan terms and conditions, allowing greater scrutiny by all stakeholders, particularly the citizens of borrowing countries who ultimately bear the burden of repayment. Transparent loan agreements will enable better oversight, reduce the risk of unsustainable lending, and ensure that loans align with the development objectives of borrowing nations.

4. **Strengthening Domestic Fiscal Efforts to Minimize Debt Accumulation:** Improving fiscal stability is crucial for resolving sovereign debt crises. Therefore, the focus should be on enhancing domestic revenue mobilization rather than solely relying on expenditure cuts.

   -Capacity Enhancement in Tax Administration: To strengthen domestic fiscal efforts and minimize debt accumulation, developing countries need to significantly improve their tax administration capacities. Enhancing the ability to collect taxes effectively, particularly through the adoption of digital technologies, is essential. Digital tools can improve tax collection efficiency, broaden the tax base, and increase compliance, all of which contribute to higher domestic revenues. This, in turn, helps reduce fiscal deficits and stabilize national debt levels. Therefore, any debt prevention or relief initiatives should prioritize building robust tax collection systems, ensuring that governments have the resources they need to invest in growth and development without relying on excessive borrowing.

f. Addressing Systemic Issues

Ensuring transparency and fairness in global financial governance is essential to enhancing the legitimacy and effectiveness of international financial institutions. Developing countries currently face significant barriers to influencing decisions within the IMF and WBG. FfD 4 must encourage reforms that democratize these institutions and hold them accountable:

1. **Merit-Based Leadership Selection**: FfD 4 should advocate for a merit-based process for selecting the heads of the IMF and WBG, ensuring that leadership positions are open to candidates from all member countries. This would promote more equitable representation and allow the most qualified individuals to lead these institutions, irrespective of their national origin.
2. **Quota and Voting Share Realignment**: Linking quota and capital increases to a realignment of voting shares is crucial for increasing the voice of developing countries. Concrete progress on quota realignment should be made by the June 2025 deadline, with further adjustments during the 2025 World Bank shareholding review. FfD 4 should also push for the official recognition of the Vulnerable Group of 20 Finance Ministers at the IMF and WBG, amplifying the voices of countries most impacted by financial and climate crises.
3. **Independent Ombudsman at the IMF**: Establishing an independent ombudsman at the IMF, with enhanced functions within the WBG, is necessary to improve accountability. This ombudsman should report directly to the Boards of these institutions, remain independent of management, and focus on investigating complaints related to compliance with policies and procedures. Such mechanisms would help build trust, increase transparency, and ensure that these institutions are held accountable for their actions.

IV. Data, Monitoring, and Follow-Up

-FfD 4 must establish a strong monitoring and accountability system to ensure that the commitments made are fully implemented. This framework should promote transparency, build trust, and support knowledge sharing and capacity building among countries, fostering continuous improvement in financing for development. Crucially, the role of civil society must be recognized as a key partner in these efforts. Initiatives such as the *ImPACT Coalition on*

International Financial Architecture Reform and Financing for Development demonstrate the vital contributions of civil society in driving advocacy for inclusive and effective implementation.

V. Overarching Reflections

The Fourth International Conference on Financing for Development represents a critical juncture for the global community to reassess and realign its approach to development finance. By addressing systemic issues, scaling up resource mobilization, and incorporating emerging challenges, FfD 4 can lay the groundwork for a more equitable and sustainable global financing framework. This will require bold reforms, enhanced international cooperation, and a long-term commitment to ensuring that all countries, particularly those most vulnerable, have the tools and resources needed to achieve their development and climate goals.

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