Center on International Cooperation

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Submission of Inputs to the Fourth Financing for Development Conference Elements Paper

Multilateral Reform Program

I) A global financing framework (including cross-cutting issues)

During the 1st Preparatory Committee Meeting of the Fourth Financing for Development Conference, global south countries made a strong statement emphasizing that development cooperation is a critical ingredient in promoting global stability. At its core, development cooperation is about global solidarity. It is not about the generosity of developed countries, but more about collective responsibility informed by the understanding that we are deeply inter-connected far beyond the boundaries of our national identities.

The significant financing gap in achieving the SDGs needs to be met urgently. Countries, of course, have the ultimate responsibility of achieving the SDGs, but they can only do so when they are able to effectively appropriate the benefits from their own resource endowments and economic activity within their borders, stem illicit financial flows and have an effective financial safety net when shocks arise. The current debt servicing crisis is further compromising countries' abilities to invest in the SDGs, because a big proportion of their revenue is now being used to pay debt. All this is against a backdrop of shocks caused by climate change risks, the legacy impact of the COVID-19 pandemic, and the secondary effects of the crises in Europe and the Middle East.

Where countries are struggling to fulfill their social contracts, there is also the manifestation of tensions and risks of social and political instability. Dissatisfied populations are taking to the streets to express their grievances with the biting cost-of-living crisis, coupled with shrinking service delivery. The situation is more complicated for countries that face other threats such as transnational crime, terrorism and climate vulnerability. When countries have to make a choice between

paying off their debts or being able to secure their own borders, or mitigate against adverse effects from climate disasters, their vulnerability compounds further. The scenes of political upheaval we have witnessed in Pakistan, Sri Lanka, Bangladesh, Kenya in the past year, just to name a few, as well as the evolving situation in the Western Coastal States all speak to these multi-dimensional dynamics.

The question of financing for development is therefore more than just about financing. It is an existential question for many countries. One of the cross-cutting issues that was included in the Addis Ababa Action Agenda is the building of peaceful and inclusive societies. Without peaceful, inclusive and just societies, all other aspects of SDGs are compromised, as such investing in prevention of conflict and violence and sustaining peace is critical to the achievement of SDGs. The lack of a sustainable solution to financing to meet SDGs exacerbates inequalities and risk factors towards violence and conflict.

II) Action Areas

a. Domestic Public Resources - Domestic resource mobilization, international tax cooperation and stemming illicit financial flows

The context

Taxation is the most essential source of public finance. It enables governments to redistribute wealth, to invest in critical infrastructure, health, and education, as well as helping to address poverty and inequality in the long term[1] [2]. A tax-to-GDP ratio above 15% is considered as a key factor for developing countries' economic

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[1] Olatunde Julius Otusanya, Jia Liu, and Sarah George Lauwo, "Influence of Tax Dodging on Tax Justice in Developing Countries: Some Theory and Evidence from Sub-Saharan Africa," *Journal of Financial Crime* 30, no. 2 (March 10, 2022): 332–60.

[2] Laura Seelkopf and Ida Bastiaens, "Achieving Sustainable Development Goal 17? An Empirical Investigation of the Effectiveness of Aid given to Boost Developing Countries' Tax Revenue and Capacity," *International Studies Quarterly* 64, no. 4 (September 14, 2020): 991–1004.

development and ultimate poverty reduction. Historical data from 139 countries indicated that after a decade, the per capita GDP would be 7.5% higher in countries with tax revenue above 15% of its GDP[3]. Domestic resource mobilization (DRM) has remained a challenge in low-income countries. According to the World Bank, tax revenues to GDP averages 13.8% in LICs, 19.75% in MICs and 32.5% in HICs.[4] This is precipitated by various factors, including inadequate tax administration capacities, tax avoidance, and tax evasion by wealthy individuals and multi-national corporations, as well as illicit financial flows.

Globally, tax competition to attract direct foreign investment has led to a continuous decline of tax rates in many countries. Base erosion and profit shifting have been significant, accounting for nearly 40% of global profits of multinationals. The U.N. Financial Accountability Transparency and Integrity Panel Report (2021) on illicit financial flows highlighted that countries are losing $500 to $650 billion a year, (this figure is currently estimated at $1 trillion) of tax revenues from profit shifting and base erosion of corporations and private wealth hidden in tax havens[5]. According to the analysis by the EU Tax Observatory[6], information exchange has been effective in reducing untaxed offshore individual financial wealth. However, despite this advance, the global tax revenues loss due to profit shifting from MNCs to tax havens continue to be high–close to 10%. In turn, the effective tax rates for billionaires are very low – between 0 and 0.5% of their wealth, according to their estimates. Further to the existence of a network of tax havens and ultra-low tax jurisdictions and the availability of tailored arrangements for high net-worth individuals, one of the main reasons for this is the lack of a global registry of beneficial owners. This is not just for financial assets, but also for non-financial and luxury assets, such as yachts, private jets, real estate, art, and other property accessible particularly to the wealthy. In addition,

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[3] Raul Felix Junquera-Varela and Bernard Haven, "Getting to 15 Percent: Addressing the Largest Tax Gaps," *World Bank Blogs*, December 18, 2018, https://blogs.worldbank.org/en/governance/getting-15-percent-addressing-largest-tax-gaps.

[4] https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/09/15/Building-Tax-Capacity-in-Developing-Countries-535449

[5] Report of the High Level Panel on International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda. February 2021. United Nations.

[6] EU Tax Observatory (2024), *Global Tax Evasion Report 2024*, available at: https://www.taxobservatory.eu//www-site/uploads/2023/10/global_tax_evasion_report_24.pdf

another 2-5% of GDP is laundered by criminals and global corruption, accounting for up to $2 trillion annually.[7] The question is how to develop a global system of cooperation that would ensure that these leakages are stopped and the benefits of appropriating the proceeds from this are invested in achieving the SDGs and climate action.

What have we learned and what needs to be done?

I) Countries need to increase their own domestic resource mobilization. This will require a combination of expanding their economic activity and improving their tax administration capacity and tax policies. Countries will need to undertake more effort in not only improving the efficiency and effectiveness of their tax administration but also expanding their tax base. This will involve addressing the barriers that hold people in the informal economy and disincentivize formalization. Taxation should not be a punishment; taxation should be seen as a patriotic duty and a means of sustaining national development, guaranteeing high quality public services, creating national equity and promoting redistributive justice. As such, tax policy should be complemented with policies on open governance, anti-corruption, incentives for small and micro-enterprises that support the ease of doing business, services that support low-income earners and that cushion the vulnerable.

II) Closely related, countries all over the world have adopted regressive tax systems where high-net worth individuals tend to pay proportionately lower taxes than the other income groups. This is not only a developed country problem but is also a developing country one. To address the issue of high-network individuals, the EU Tax Observatory has proposed a global tax for billionaires (somewhat less than 3000 globally) equivalent annually to 2% of their wealth, which could include as part of its design an exit tax to avoid capital flight[8]. Agreeing on a global minimum tax for high-net worth individuals is a critical first step within the UN Framework Convention on International Tax Cooperation. But this should be complemented with national efforts aimed at correcting regressive tax systems, by addressing

[7] United Nations Office on Drugs and Crime, "Money-Laundering Overview. https://www.unodc.org/unodc/en/money-laundering/overview.html.
[8] The US actually chargers an "expatriation Tax" on accrued capital for US for individuals who change their citizenship.

national tax avoidance loopholes, systematizing taxation of inheritance and capital gains. To increase its effectiveness, this should be complemented by ensuring that there is global transparency of wealth ownership through the creation of a global beneficial owners' asset register that identifies final beneficial owners of all assets, combining public data, and privately held data for tax and other purposes. The associated information should be available for public benefit, researchable and machine readable, while upholding privacy.

III) OECD have been negotiating a new global taxation agreement to tackle "base erosion and profit shifting" under the OECD Inclusive Framework. These were undertaken under two pillars. The acknowledgement that Base Erosion and Profit Shifting is hurting governments globally, is a good first step. In the world today, with vast amounts of e-commerce and online services and goods transacted beyond physical borders, the notion of physical presence as the principle for taxable presence is outdated. There is need to adopt the notion of "significant economic presence" to replace "physical presence" as the determination of which jurisdiction has a right to charge tax on an MNC. Using the principle of significant economic presence as taxable presence in a country is created when a non-resident enterprise has significant revenue-raising business activities in a jurisdiction. A percentage of MNC profits, whether routine or residual, should be apportioned to every jurisdiction where they have significant economic presence, which should constitute both demand and supply activities. The formula for determining how this is apportionment is arrived at should be based on fractional apportionment that allocates profits based on supply and demand factors that influence profit creation in each jurisdiction. This should be complemented with a global public reporting system on taxation of MNCs.

IV) Being party to a Base Erosion and Profit Shifting agreement (BEPS) should not preclude a country from imposing unilateral tax measures on goods and services by MNCs. This is important in addressing the issues of Subject to Tax Rules (STTR). Countries should be able to, for example, still charge sales tax on digital services even where they are party to the BEPS agreement.

V) The suggested minimum corporate tax of 15% is still quite low. The ideal number should be 20-25%. Many countries view their ability to set a lower corporation tax rate as a key element of their economic attractiveness for FDI. Countries should adopt other measures of competitiveness outside of financial incentives, if this

matter is to be addressed conclusively, and avoid the race to the bottom that characterizes current practice.

VI) Transfer Pricing involving the extraction of natural resources has remained a thorny issue for developing countries. As a result, countries fail to fully capture the value of their natural resources. Because of the nature of the extractives industry, they tend to be long-term, expensive ventures, with a lot of uncertainty. As such, there are not many corporations that have the capacity in terms of technology, human, financial and years of experience. The few that do, therefore, have developed deep capacities that includes the legal knowledge to navigate the ecosystem. As such, most developing country governments come to the table at a disadvantage, resulting in skewed contracts with concessions that favor the MNC. Apart from negotiating for tax incentives such as tax holidays during the lifecycle of a project (stabilization clauses), they also negotiate royalties and tax on income based on fair market value for selling prices without addressing or otherwise limiting the application of normal transfer pricing rules in the determination of selling price for income tax or royalty purposes. Developing countries should begin to think creatively about how to incentivize corporations away from only using tax benefits. To further ensure that they can capture more of the economic benefit from extractives, countries should develop regulation that ensures a multi-national corporation that qualifies to exploit a resource, also commits to undertake at least 50% of the processing and marketing within the source country, before selling to another entity. Countries should also set out a clear regulatory framework governing royalty payment and not leave it to a case-by-case basis. Further, because extractive industries usually have a negative impact on the environment, countries should introduce an environmental health and recovery tax that will be used for environmental clean-up, compensating affected communities from negative environmental and social impacts and restore the environment after extractive projects have been retired.

VII) Developing countries need capacity building and support to improve their own tax administrative systems and policies, and also participate effectively in international tax cooperation. ODA can play a very useful role as a catalyst that supports governments in achieving all these. ODA should evolve an explicit objective with a measurable outcome of increasing DRM.

VIII) The Global Solidarity Levies Task Force: For People and the Planet was launched at COP28 in November 2023, and co-chaired by Barbados, France and Kenya. This initiative brings member countries together to explore feasible, scalable and sensible options for climate levies. The Task Force has been exploring several different options, such as applying a global sectoral green tax, for example in the maritime (maritime fuel levy), aviation (private air passenger levy), and financial services (financial transactions levy) sectors. Others include fossil fuel profits windfall levy, fossil fuel or carbon damages levy, as well as phasing our fossil fuel subsidies. According to the taskforce, these levies could yield the following:

- Financial Transactions: a 0.1% levy on the trading of stocks and bonds could deliver **up to $418 bn per year** on a global level[9].
- Levy on aviation: an aviation levy could raise up to **$150 bn per year** on a global scale[10].
- Levy on maritime shipping: a levy of $150/ton C02 would raise **up to $80bn for a year** [11].
- A fossil fuel extraction levy of $5/ton C02 would raise **$210 bn per year** rising to an average of $300bn per year by 2050 – assuming significant reduction in demand and an increase of the rate of $10 per ton annually to reach $250 a ton by 2050[12].
- Fossil fuel companies windfall profits levy: A levy on windfall profits of 10% would have raised **$300 bn in 2022** as net income for fossil fuel producers in 2022 was $4 trillion with an implied windfall profit of $3 trillion globally[13].

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[9] Atanas Pekanov and Margit Schratzenstaller, "A Global Financial Transaction Tax: Theory, Practice, and Potential Revenues," Austrian Institute of Economic Research (WIFO), May 29, 2019, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3407855.

[10] Thomas Hirsch, Bertha Argueta, and Martin Gück, "New Resources for Public Climate Finance and for the Loss and Damage Fund," Climate Action Network Europe, September 2023, https://caneurope.org/content/uploads/2023/10/Public-sources-climate-finance-loss-and-damage.pdf.

[11] Matthieu Wemaëre, Lola Vallejo, and Michel Colombier, "Designing a Greenhouse Gases (GHG) Levy Supporting an Equitable Low-Carbon and Resilient Transition of International Shipping under the IMO," IDDRI, 2023, https://www.iddri.org/sites/default/files/PDF/Publications/Catalogue%20Iddri/Autre%20Publication/202306-Note-shipping%20levy.pdf.

[12] Julie-Anne Richards, David Hillman, and Laurey Boughey, "The Climate Damages Tax," Stamp Out Poverty, December 2018, https://www.stampoutpoverty.org/live2019/wp-content/uploads/2019/06/CDT_guide_web23.pdf.

[13] International Energy Agency. *World Energy Investment 2023*. 2023, https://iea.blob.core.windows.net/assets/54a781e5-05ab-4d43-bb7f-752c27495680/WorldEnergyInvestment2023.pdf

To further complement these efforts, the ongoing conversation about carbon markets and fair pricing of carbon including carbon floors needs to be concluded[14].

b. Debt and Debt sustainability

The context

Over 60% of countries that use the joint IMF-World Bank Debt Sustainability Framework for Low-income Countries, are currently assessed as at high risk of, or already in, debt distress.[15] 3.3 billion people are living in countries where government spending on interest payments is greater than education and health.[16] Some low-income countries are spending as high as 22% of their ordinary revenues on interest payments – four times what they were spending ten years ago[17]. It is also estimated that there will be about $50 billion net outflows from developing countries in 2024, where low-income countries will pay more to service their debts than aid coming into their countries. The current debt situation has been getting worse for the past decade. From IMF forecasts, we see that this debt problem is not temporary. The outlook for these countries is likely to worsen in the next few years. Debt stocks are expected to rise by a further 11% across all developing countries through until 2028[18]. Large debt payments are coming due in 2024 and 2026 for at least 20 low- and lower-middle-income countries. As countries hit this "debt wall," their already fragile fiscal positions will deteriorate further. When considering ordinary revenue without grants, debt service payments as a percentage of revenue increased by 5% between 2023-2024. If the current global monetary tightening continues, this will keep growing.

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[14] See in this regard https://www.imf.org/en/Blogs/Articles/2022/05/19/blog-why-countries-must-cooperate-on-carbon-prices

[15] https://www.imf.org/external/pubs/ft/ar/2023/in-focus/public-debt/#:~:text=Among%20low%2Dincome%20countries%2C%20about,a%20more%20diverse%20creditor%20landscape.

[16] United Nations Conference on Trade and Development (UNCTAD), "A World of Debt: Report 2024," https://unctad.org/publication/world-of-debt/dashboard?id=CA

[17] SOURCE

[18] Matthew Martin and David Waddock, "Resolving the Worst Ever Global Debt Crisis: Time for an Ambitious Initiative," Norwegian Church Aid, June 2024, https://www.development-finance.org/files/AMBITIOUS_DEBT_RELIEF_INITIATIVE_FULL_REPORT_SEPT_2024.pdf.

The current debt landscape for developing countries has become more complicated in terms of creditor composition. But for least developed countries, MDB debt still remains the highest in their debt portfolios, particularly debt owed to the World Bank. For the 73 Debt Service Suspension Initiative (DSSI) eligible countries, their debt book includes: MDBs at 46%; bilateral at 34% with China being 19.5%; and commercial creditors at 19.5% shared between bondholders and private creditors 65:35. China however remains the single most influential bilateral creditor to this group[19].

What lessons have we learned and what still needs to be done?

The current debt payment crisis is impacting countries in very serious ways and urgent action is needed to address it. Some of the proposals have already been suggested previously. Some have even been implemented; with varied levels of success, and with further improvement is still required.

I) Promoting multilateral action to the address the cost of debt
   - The World Bank and other MDBs remain the largest category of creditors to developing countries. As such, what MDBs do will greatly impact the current debt situation. MDBs are particularly attractive because of their concessional and near concessional terms on some of their products such as IDA.[20] To further protect this characteristic of MDBs, shareholders need to increase the capitalization of these banks to keep pace with rising global needs.
   - The IMF has recently undertaken the 2024 review of the Charges and Surcharges Policy, the result of which is a 36% reduction on the cost of IMF borrowing on account of the margin resulting from charges and surcharges[21]. This is a positive step, but the IMF could consider reducing this to achieve a 50% reduction, especially in view of the number of countries facing debt service crisis. Further the IMF should consider using

[19] Ibid
[20] International Development Association
[21] Kristalina Georgieva, "IMF Managing Director Kristalina Georgieva's Statement on the Review of Charges and the Surcharge Policy," International Monetary Fund, October 11, 2024, https://www.imf.org/en/News/Articles/2024/10/11/pr-24368-imf-md-kristalina-georgieva-statement-on-the-review-of-charges-and-surcharge-policy#:~:text=%E2%80%9CThe%20approved%20measures%20will%20lower,fall%20from%2020%20to%2013.%E2%80%9D.

the increase in this years' accumulated precautionary balances above the targeted $25 billion as concessional financing for countries in distress.

- Risks associated with foreign currency fluctuations is one of the leading drivers impacting the cost of debt. Local currency borrowing is a solution that could address this issue. There are several MDBs that lend in local currency but only do so for small amounts, and favor more advanced markets. MDBs need to scale up their capacity to lend in local currency by developing instruments that promote forex risk hedging including partnering to create local currency liquidity pools.
- For countries that have access to global financial markets, credit rating agencies play a very pivotal role in determining their cost of financing. In Africa, for example, "borrowing rates (11.6% on average) are almost twice as high as rates for countries in Asia and Oceania (6.5%), four times higher than in the US (3.1%), and eight times higher than in Germany (1.5%)"[22]. It is no wonder that countries that have gone to the market all end up with an over-subscription on their bond issuance. The risk pricing assigned to developing countries' debt is disproportionate. Risk is perception, which is heavily influenced by information asymmetry. What, how and when data is collected, collated and analyzed, is an area of reform within developing countries. This should be further supported by evolving a public sovereign credit rating institutional framework. For a public sovereign credit rating agency to gain market acceptance, it should seek to fulfill the following:
    - It should be independent, devoid of any conflict of interest, whether from public or private sources;
    - Specialized on sovereigns, and builds on expertise to interpret and analyze both quantitate and qualitative data points relevant for understanding sovereigns;
    - Has the methodology to generate comparable data; and operates as a private entity that is a going concern. Countries would pay to be rated and would need to do so periodically to access the global financial markets.

[22] Hippolyte Fofack, "The Way Out of Africa's Debt Doom Loop," Project Syndicate, April 8, 2024, https://www.project-syndicate.org/commentary/how-africa-can-escape-debt-doom-loop-by-hippolyte-fofack-2024-04#:~:text=An%20analysis%20of%20bond%20yields,than%20in%20Germany%20(1.5%25).

This would remove the task of rating sovereigns from the private credit rating agencies. It would limit them to providing opinions as they currently do, in a way that complements the results of the public sovereign credit rating agency.

II) Mainstreaming resilience and sustainability into debt contracts
- Pandemics, climate related shocks, mass conflicts etc. have all become a reality in thinking about the likelihood of global challenges. Because of this, making state-contingent debt clauses a regular feature of debt contracts should become a regular feature of debt contracts. This would allow for a more predictable course of action if these shocks hit. State contingent clauses can be designed to work both ways. Having instruments that offer an upside for creditors in good times, and protecting debtors in downturns, thereby promoting risk sharing.

III) Review of the Debt Sustainability Framework
- The Debt Sustainability Analysis (DSA) undertaken by the World Bank and the IMF need to be reviewed so that they can become more realistic and support effective decision making. Some of the issues that DSAs need to reconsider include a review of what has sometimes been viewed as overly optimistic macroeconomic projections; the insufficient consideration of human development, climate change risks and investment, ecosystem services and natural resources as well as SDGs; and their underestimation of fiscal multipliers.[23]

IV) Streamlining debt treatments
- The current G20 framework for debt restructuring has had very few takers. The primary resistance was informed by the anticipated backlash from the markets resulting in credit rating downgrades. This has been further augmented by the fact that the framework has not delivered at a speed that matches the need. Consequently, countries have opted to struggle with their debt service payments to the detriment of development. The experience of the past four years has demonstrated that we need a multilateral system that provides a graduated menu of options for debt treatments based on different country situations. With this in place, when certain conditions begin to manifest, the IMF should begin to engage the country towards the most appropriate debt treatment for their situation. Debt Sustainability Analyses are crucial in making this case, and how they are undertaken is imperative. If we use the current global debt situation as

[23] https://odi.org/en/publications/an-appraisal-of-debt-sustainability-analyses-amid-multiple-crises/

a basis, countries can be categorized into three non-distinct categories.[24] Looking at these 3 categories, we can begin to build a menu of options for each.

a. The first category is low-income countries that are assessed at high risk or in debt distress, have a high debt stock, their debt interest payments are greater than 20% of revenue, their domestic resource mobilization of below 15% of GDP, and do not have access to bond markets. For these countries debt relief similar to the HIPC initiative would be the most viable option. These could be customized based on the severity of the situation, including debt stock cancellation and interest payments cancellation on the extreme end or on the other end using instruments such as debt swaps, debt conversions and debt buy-backs.[25] Due to their current situation, these countries need solutions urgently.
b. The second category of countries are those facing moderate to high risk of debt distress but have access to global financial markets. These require a combination of debt restructuring and undertaking their own structural reforms. Though some of them are at great risk of default, they have opted to pursue domestic measures rather than debt restructuring to protect their credit rating. For this category a closer look at their macro-economic fundamentals and growth prospects is important. Where the growth prospects are medium to high, restructuring that includes debt service suspension, rescheduling or interest rate reduction and combined with structural reforms towards increasing domestic resource mobilization, and fiscal consolidation measures amongst others would be an option. Where the growth prospects are low, they should pursue restructuring similar to the first category.[26]
c. The third category of countries are those that still have market access, and they may not consider it worthwhile taking the risk with debt relief or restructuring. They are likely to go back to the market, though they may need assistance to reduce the cost of financing. The interventions for these

[24] Matthew Martin and David Waddock, "Resolving the Worst Ever Global Debt Crisis: Time for an Ambitious Initiative," Norwegian Church Aid, June 2024, https://www.development-finance.org/files/AMBITIOUS_DEBT_RELIEF_INITIATIVE_FULL_REPORT_SEPT_2024.pdf
[25] Ibid
[26] Ibid

countries could include interventions such as MDB guarantees that would reduce the costs of bonds as they go back to the markets.[27]

V) Supporting responsible borrowing

- Developing the legal framework for accountability and oversight on debt matters. This has included legislation for responsible borrowing, building national capacity for effective debt analysis, management, transparency, accountability and oversight, as well as building in prudence. The implementation of these legal instruments has however been a mixed bag among different countries. Research has revealed that there is still a need to develop well capacitated debt management institutions that are able to independently undertake analysis and advice the government on debt matters, as well as invest in the capacity for parliamentary and public oversight, which is critical in maintaining prudence and transparency within debt decision making.
- Secondly, several developing countries have been making efforts towards growing their domestic capital markets, in which banks, pension funds, private companies and even individuals buy government debt as investments. However, more can still be done. There is a lot of money from low income and lower middle-income countries that are pursuing what they consider as safer, but comparatively low yielding instruments in high income economies. To capture this outflow, developing countries should consider strengthening the policy environments to incentivize domestic savings and investments.
- Where countries have high domestic debt exposure, they have tended to opt for high cost, short term debt, which is attractive for investors, but crowds out resources for the private sector. The feedback of this within the economy is almost immediate. Domestic borrowing should be factored within a medium-term debt strategy to ensure that central banks have the time to plan out and negotiate terms that are favorable and aligned to the fiscal policy and economic realities before the need for emergency cash arises. Negotiations with domestic lenders should also be anticipated within the same strategy and pursued as soon as a country enters the

[27] ibid

category of medium risk of debt distress. Where the negotiation window is sufficient, countries have been able to extend maturity periods and negotiate an economically prudent haircut, rather than using concessional funding or SDRs to pay off these debts.

VI) Supporting responsible lending

- Most sovereign debt is governed by legal jurisdictions in New York and London. These jurisdictions have a responsibility to play in instituting responsible lending and disincentivizing predatory practices. They should enact laws that disincentivize unscrupulous creditor hold-outs (e.g. the proposed New York Sovereign Debt Stability Act[28], and the UK Vulture Fund Law[29]); laws forcing all creditors to provide comparable treatment; limit the amount that a creditor can receive in a legal proceeding if an agreement is reached with a majority of creditors; as well as laws to protect debtors from seizure of assets during debt restructuring processes; guarding against opportunistic litigious practices (e.g. the proposed New York revised Champerty and Sovereign Debt Bill); and also laws that guard against corrupt practices within debt deals.

In conclusion, FFD 4 needs to prioritize strengthening domestic resource mobilization and promoting international tax cooperation as well as debt sustainability. This is an opportunity to walk the talk on global solidarity to support the realization of the SDGs as outlined in the Addis Ababa Action Agenda and respond to the calls for reform in the Pact for the Future.

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[28] Butler, Melissa, Ian Clark, and Dimitrios Lyratzakis. "New York's Proposed 'Sovereign Debt Stability Act': An Overview." *White & Case*, 15 May 2024, https://www.whitecase.com/insight-alert/new-yorks-proposed-sovereign-debt-stability-act-overview

[29] Landmark Law Passed to Tackle 'Vulture Funds'." *Global Justice*, 8 April 2010, https://www.globaljustice.org.uk/news/landmark-law-passed-tackle-vulture-funds/