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Introduction

1. The United Nations Financing for Development (FfD) process takes its roots from the 2002 Monterrey Conference, a landmark global agreement between developed and developing countries, in which both recognized their responsibilities in key areas such as domestic resource mobilization; domestic and international business and finance; international trade; international development cooperation and official development assistance; debt; technology; and systemic issues. The process as agreed on was about structural issues that can facilitate better financing for development with developing countries being able to finance their own development. Its fundamental premise is about the structural socio-economic transformation of the global South.
2. The FfD process supports the follow-up to the agreements and commitments reached during the three major international conferences on Financing for Development: in Monterrey, Mexico in 2002; in Doha, Qatar in 2008; and in Addis Ababa, Ethiopia in 2015. It also continues the discussions on the financing for development-related aspects of the outcomes of major UN conferences and summits in the economic and social fields, including the 2030 Agenda and the Sustainable Development Goals (SDGs).
3. A 4th Conference on Financing for Development (FfD4) is the moment to talk about the fundamental issues around financing for development. It is an opportunity to put the global South's agenda back at the core of the discussions.
4. The FfD4 conference is a moment of accountability of governments, as well as a reminder of unmet commitments to reducing inequalities and fund development. It must move beyond romanticizing a narrative of international cooperation and decisively address the colonial and neo-colonial roots of the multiple crises wreaking havoc in the lives and livelihoods of communities especially in the global South.
5. This discussion paper puts forward positions of civil society on some critical elements of financing for development that should result in outcomes that ensure democratization of global economic governance as well as the profound transformation of the international finance and economic architecture.

I. A global financing framework

We find ourselves in a world in enduring crisis. In addition to the lingering impacts of the COVID-19 pandemic and the triple planetary crisis of climate change, biodiversity loss and pollution, there have been geopolitical, social and economic consequences of ongoing wars of aggression, a global cost of living crisis and an explosion of the debt crisis affecting huge parts of humanity. Experts have even warned of a polycrisis – "a cluster of related global risks with compounding effects, such that the overall impact exceeds the sum of each part". [1]

The current direction of international cooperation seems unable to provide effective solutions. Many developing countries face imminent economic collapse under the weight of debt burdens. The international financial system has failed to provide long-term solutions for debt relief and sustainability. These crises underscore the need for urgent reforms of the global economic and financial systems.

Once the institutional architecture is changed, reforms that enable developing countries' policy and fiscal space to finance their own development will ensue. Such reforms include the need for a UN multilateral legal framework to address unsustainable and illegitimate debt including through extensive debt cancellation, establishing a universal intergovernmental UN tax body, negotiating a UN tax convention, and a global technology assessment mechanism at the UN[2].

FfD4 takes place in the midst of a very challenging context, and expectations are high that governments will go beyond the usual diplomatic speeches rife with tokenism and voluntary commitments. Binding decisions on the structural changes and the provision of concrete financial resources at scale are needed to overcome the polycrisis and bring about a revitalized solidarity-based multilateral cooperation.

The FfD process is significant as this is where developing countries have an equal say and vote. While the global north and donor countries prefer discussing these issues at the Organization for Economic Cooperation and Development (OECD), the FfD provides a platform to create the policy and fiscal space for developing countries to finance their own development.

II. Action areas

a. Domestic public resources

Domestic public finance mainly refers to fiscal policy concerns, such as sources of revenue generation through taxation, and spending. However, the current design of the international tax system for generating domestic public resources is insufficient, resulting in rampant global inequality, which is fueling the climate crisis. The close link between wealth and emissions is clear, with the richest 1% of the global population emitting the same amount of greenhouse gases (GHGs) as two-thirds of humanity[3]. Transformation of the international tax system is needed to ensure fairness and inclusivity, particularly ensuring the participation of global South countries.

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[1] World Economic Forum. (2023, Jan. 13) "We're on the brink of a 'polycrisis' – how worried should we be?" https://www.weforum.org/agenda/2023/01/polycrisis-global-risks-report-cost-of-living/

[2] CS for FfD Group. (2015, July 16). Civil society response to the Addis Ababa Action Agenda on Financing for Development. https://csoforffd.files.wordpress.com/2015/07/cso-response-to-ffd-addis-ababa-action-agenda 16-july-2015

3 Oxfam (2023). https://www.oxfam.org/en/press-releases/richest-1-emit-much-planet-heating-pollution-two-thirds-humanity#:~:text=The%20richest%2010%20percent%20accounted,both%20between%20and%20within%20countries

In Zucman[4], wealth tax reform is discussed as part of a progressive tax system strengthening social cohesion and trust in governments. To combat growing inequality, there is a proposal of a minimum 2% tax on global billionaires, which would raise USD 200-250 billion per year in tax revenue. This is based on global billionaire data showing 2,800 billionaires who collectively own USD 14.2 trillion in wealth. The threshold for a wealth tax could also be set lower, for instance at USD 100 million, generating an additional amount of USD 108 billion in tax revenue (low end scenario). Under certain conditions, progressive income tax and inheritance tax could supplement tax revenue derived from the implementation of a wealth tax.

Domestic finance should be primary and oriented to reducing inequalities. Domestic sources of financing for development, such as fiscal policy, must be reaffirmed as primary. Taxation regimes must be progressive, not reliant on consumption taxes on goods and services that hurt the lower income groups more. This strengthens the argument for higher taxation of the wealthier segments of populations, and especially applicable for multinational corporations. There is also a need to reverse the current neoliberal policy of tax incentives that many Southern governments implement to entice foreign direct investment.

Issues in raising tax revenue include the various tax avoidance practices of transnational corporations (TNCs) such as the use of offshore centers and transfer mispricing; the prevalence of indirect taxes and regressive taxation; the decline of tariffs and corporate taxes due to the history of blanket trade and investment liberalization. Generating domestic finance also requires curbing illicit financial flows from transfer pricing schemes along production chains. Southern countries must also be given the space for tariffs as a revenue source. Not all of these proposals fall within the mandate of the FfD process. However, while these proposals are negotiated in other fora, a clear signal must be sent that these transformations play a pivotal role in revitalizing solidarity-based multilateral cooperation.

One such forum is the UN Tax Convention, initiated by the Africa Group in 2022 after the General Assembly adopted their resolution[5]. This historic moment is not only pivotal in terms of creating a fairer global tax system, but also in terms of democratizing global economic governance by facilitating democratic participation of those countries negatively affected by the current global tax architecture[6]. This marks significant progress, although there is still a long way to go to achieve the adoption of the convention and see its real impact. The Financing for Development process should give a clear signal to the UN Tax Convention by creating and fostering international cooperation on tax issues to avoid a race to the bottom between nations and provide protection against tax competition.

b. Domestic and international private business and finance

The recently adopted Pact for the Future[7] states the need to accelerate the reform of the international financial architecture to meet the urgent challenge of climate change. However, in recognizing this urgent challenge, it calls on the private sector, in particular large corporations, to scale up support to developing countries and enable climate action. Private finance is advocated for particularly by developed countries as it shifts the burden away from public finance[8].

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[4] Zucman (2024). https://gabriel-zucman.eu/files/report-g20.pdf
[5] UNGA (2023). https://financing.desa.un.org/sites/default/files/2024-01/A.RES_.78.230_English.pdf
[6] FFD CSO Mechanism (2024). https://csoforffd.org/resources/un-member-states-fail-to-deliver-international-financial-architecture-reform-at-t/
[7] UN (2024). https://www.un.org/sites/un2.un.org/files/sotf-the-pact-for-the-future.pdf
[8] Loss & Damage Collaboration (2024). https://cdn.prod.website-files.com/605869242b205050a0579e87/66b0a5684936c28febe6d34f_L%26DC_NCQG_TED11_Submission.pdf

This is problematic however, as the reliance on private finance, alongside the conditionalities with which it is provided, causes serious concerns and is not consistent with responsibilities laid out in the UNFCCC and Paris Agreement. Private finance most commonly comes in the form of loans, which means recipients pay back with interest down the line. This further worsens the compounding debt and climate crises that many developing countries find themselves in. [9]

Another problem with private finance is that the overwhelming portion goes to mitigation projects as the rate of return on investment is higher. An OECD analysis of 2018-2020 found only 12% of climate finance going to adaptation[10]. This undermines the obligation under the Paris Agreement for climate finance to be provided for both mitigation and adaptation projects in a balanced manner. Private actors provided USD 625 billion in climate finance in 2022[11]. While this represents an increase from 2021, the vast majority of this growth was in mitigation finance. In addition, this growth has not resulted in anywhere near an amount that would constitute needs-based provision of climate finance. Despite these clear deficiencies, developed countries continue to argue for enabling conditions in developing countries to scale-up the provision of climate finance. However, these enabling conditions, which encompass austerity measures, have shown to undermine people's economic, social, and cultural rights, and even enhance vulnerability to climate change[12].

The role of multilateral development banks (MDB) including the World Bank, Inter-American Development Bank, Asian Development Bank, the African Development Bank, and the European Bank for Reconstruction in climate finance is also highly contentious, as these institutions do not normally provide grants. The interim hosting of the Fund for Loss & Damage at the World Bank may therefore be a signal that most of the financial support distributed by the Fund will be in the form of loans, as opposed to grants.

At COP29, negotiations on the New Collective Quantified Goal on climate finance (NCQG) are set to be completed. The focus for the NCQG and any relevant processes with FfD should be on this provision of climate finance through public sources where no return on investment is incurred[13], and does not add to pre-existing (and illegitimate) debt burdens of developing countries. With appropriate policy choices, developed countries have the means to mobilize well over USD 5 trillion in public climate finance per year[14].

c. International development cooperation

International development cooperation can support countries in achieving their own paths to development. To play this role, development cooperation must be focused on supporting the country's people/community-owned development plans and result frameworks, in accordance with the Right to Development.

The UN Development Cooperation Forum (UNDCF)[15] notes that development cooperation aims to explicitly support national or international development priorities; is not driven by profit; discriminates in favor of developing countries; and is based on cooperative relationships that seek to enhance developing country ownership. Importantly, it also

[9] ActionAid (2023). https://actionaid.org/publications/2023/vicious-cycle
[10] Oxfam (2024). https://oxfamilibrary.openrepository.com/bitstream/10546/621500/19/bp-climate-finance-shadow-report-050623-en.pdf
[11] Climate Policy Initiative (2023) https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/
[12] Human Rights Watch (2023). https://www.hrw.org/news/2023/09/25/imf-austerity-loan-conditions-risk-undermining-rights
[13] Oxfam (2024). https://oxfamilibrary.openrepository.com/bitstream/10546/621500/19/bp-climate-finance-shadow-report-050623-en.pdf
[14] Oil Change International (2024). https://www.oilchange.org/wp-content/uploads/2024/09/Road-to-COP29-Shifting-and-unlocking-trillions-for-a-just-energy-transition-1.pdf
[15] Development Cooperation Policy Briefs (2015 February). What is development cooperation? https://www.un.org/en/ecosoc/newfunct/pdf15/2016_dcf_policy_brief_no.1.pdf#:~:text=Objectives%20of%20development%20cooperation.%20In%20some

includes political support, technical capacity and knowledge sharing. While development cooperation is broader, it is used interchangeably with 'aid' or official development assistance (ODA), to denote a transfer of resources from donor countries to developing countries.

More than half a century had passed since the United Nations General Assembly adopted the 'resolution on development and international economic cooperation' in 1975. This resolution provided for high-income countries committing to spend 0.7% of their gross national income (GNI) on aid to low- and middle-income countries. Total aid reached USD 223.7 billion in 2023, setting a record for the fourth consecutive year, but this is still not enough to meet the challenges the world faces today. Fifty years hence, only five countries – Luxembourg, Norway, Sweden, Denmark, and the United Kingdom – met or exceeded the 0.7% target.

OECD countries, most of which have been providing humanitarian and development assistance, are increasingly looking inward to secure their foreign policy interests. ODA is now used to include spending for military aid, counter-terrorism activities, refugee costs, prevention of extreme violence, and nuclear energy. Aid money is also being spent on different financing instruments to support the private sector, diverting resources away from much needed public health, education and social protection services.

The mounting socio-economic challenges and their long-lasting consequences demand that ODA be scaled up and upgraded to respond to new emerging trends in poverty levels and food insecurity, rising inequalities, endemic contexts for conflict, and growing impacts of climate change. These issues are at the center of the global policy debate in development cooperation architecture.

Developed countries must fulfill their financing and development cooperation commitments. Donor countries must fulfill the historical unmet commitment of ODA equivalent to 0.7% of their national incomes. Amid the worsening climate crisis, climate finance must be in addition to ODA. Aid should fulfill its mandate of reducing poverty and inequalities in wealth and income, and must adhere to development effectiveness principles.

There is no doubt that development cooperation in all forms, if done right, can and does contribute to the realization of the right to development. Development cooperation practices may mainstream the normative principles of the right to development in a systematic manner across all their processes, especially that development itself is a human right of all individuals and peoples, and that this entails a duty on States to cooperate. This may be facilitated with the establishment of a Convention on Development Cooperation, guided by the principles of justice, solidarity and respect among nations. The Convention, under the auspices of the United Nations, will also lay the framework for implementation and monitoring of commitments.

d. Debt and debt sustainability

Global public debt has reached a record high of USD 97 trillion in 2023. The burden of this debt varies significantly, with countries' ability to repay it exacerbated by inequality embedded in the international financial architecture. Developing countries are now facing a growing cost of external debt.[16] The poorest countries spend over one-tenth of their export revenues just to pay the interest on external debt. Least Developed Countries (LDCs) are in a debt trap, and must obtain new loans just to finance their debt servicing obligations. About

[16] UNCTAD (2024). A world of debt. https://unctad.org/publication/world-of-debt

60% of LDCs are already in debt distress[17], a situation that seriously undermines a country's ability to provide public services, undertake climate action and ensure human rights because of staggering debt payments.

For countries in distress and even for those considered as "having sustainable debt", prioritizing debt service payments in the context of multiple crises is often done at the expense of health, social protection, education, climate action and resilience and other basic needs. States are unable to raise the needed resources to address the multiple crises. They often do not have equal access or favorable terms of access to needed finance, and are forced to divert funds and forgo needed socio-economic expenditures to repay creditors.

While the G20 has recognized the urgency of the debt crisis, the initiatives it has put in place to respond to rising debt levels have left many climate vulnerable countries trapped in unsustainable debt. The short-lived Debt Service Suspension Initiative (DSSI) temporarily deferred debt payments for 73 of the world's poorest countries to free up resources for pandemic response. The Common Framework for Debt Treatments Beyond the DSSI (Common Framework) supposedly considered debt restructuring on a case-by-case basis, upon request by eligible debtor countries. Only three countries applied, and since the Common Framework failed to include private creditors in debt relief, the initiative was hardly a success.

Another approach to debt restructuring is through the different forms of 'debt swaps', including debt for nature swaps. Evidence shows that these mechanisms do not go far enough to relieve the debt burden of developing countries. But perhaps what is more concerning is that without the benefit of a debt audit, it considers all developing countries' debts as legal and moral, and must be repaid. It does not consider debts that were tainted with corruption, or worse, were harmful to people and the planet.

Governments and institutions must provide debt cancellation in line with demands from countries in the global South that are particularly vulnerable to the adverse effects of climate change. Debt cancellation will enable governments to use their fiscal and monetary instruments to provide basic services, implement policies for women's human rights and ensure social protection for the people. On the other hand, global North countries and industries must pay their climate debt by committing to climate financing including through loss and damage.

Calls to establish a multilateral debt workout mechanism[18] under the auspices of the UN to comprehensively address unsustainable and illegitimate debt, including through debt cancellation, are gaining ground, and should be advanced at the FfD4.

e. Addressing systemic issues

The 80-year history of the Bretton Woods institutions International Monetary Fund and the World Bank (IMF-WB) proves that their governance structures have primarily served the interests of the powerful countries that created them during the post-Second World War period. Despite some reforms, the fundamental power dynamics and neoliberal agenda of these institutions remain unchanged. These structures continue to promote policies that

[17] World Bank Group (2022 Dec 6). Debt-Service Payments Put Biggest Squeeze on Poor Countries Since 2000. https://www.worldbank.org/en/news/press-release/2022/12/06/debt-service-payments-put-biggest-squeeze-on-poor-countries-since-2000
[18] UNCTAD (2015 April). Sovereign Debt Workouts: Going Forward Roadmap and Guide. https://unctad.org/system/files/official-document/gdsddf2015misc1_en.pdf

favor private finance interests, a trend particularly evident since the 3rd FfD conference in Addis Ababa.

The IMF's governance structure concentrates formal power in the hands of a few wealthy countries, as a country's voting power is directly linked to the size of its economy. Advanced economies hold the majority voting power to determine the frameworks for policy advice and conditionality attached to IMF lending. On the other hand, low- and middle-income countries, which are most likely to borrow from the IMF, have limited influence on its decisions. LDCs hardly have a voice in major international institutions, leaving them with little to no power to shape decision-making. Collectively, the LDCs only have 3.5% voting rights[19] at the IMF. This unequal, undemocratic system further marginalizes developing countries particularly in light of the conditions[20] imposed for borrowing. Moreover, the World Bank locks debtor countries in a donor-driven reform agenda despite its harmful impacts on the lives and livelihoods of people.

Recent reforms, including a review of the IMF quota system, the rechanneling of Special Drawing Rights, the World Bank's 'evolution roadmap,' are quite problematic as these tend to reinforce the influence of private sector interests rather than addressing the core issues of governance and accountability within multilateral development banks (MDBs). This places development interventions under the purview of private finance, often at the expense of broader public interest. Current reform agendas even risk exacerbating existing issues, as these do not address serious governance deficits and the lack of accountability in these institutions.

It is worrisome that there was little progress on the reform of the international financial architecture (IFA) from the IMF-WB Spring Meetings, which should be a key component of deliberations at FfD4. The IMF's 'expanded mandate' to new work areas such as climate, gender and inequality are even more worrisome. The Fund lacks an accountability mechanism that would deprive people and communities negatively impacted by its policies and programs any recourse. There needs to be an accountability mechanism at the IMF that will consider the policy and governance changes the Fund would have to undergo. While Special Drawing Rights could in principle be used for climate and development finance as they provide instantaneous debt-free support and can help with macroeconomic stability, their distribution according to quotas benefits powerful countries as opposed to those who need them most.[21] SDRs need to be decoupled from quotas to allow for a commensurate needs-based and fair distribution.[22]

A meaningful reform of the IFA should be responsive to the needs of people and planet, and support structural transformations. As advocated by countries from the global South, there is a need for a comprehensive overhaul of existing MDBs. These systemic issues in the international finance architecture could be best addressed by reclaiming the Right to Development, upholding countries' sovereignty and steering economies to meet local needs.

[19] International Monetary Fund (2024 October). IMF Members' Quotas and Voting Power, and IMF Board of Governors . https://www.imf.org/en/About/executive-board/members-quotas
[20] International Monetary Fund (2023). IMF Conditionality.https://www.imf.org/en/About/Factsheets/Sheets/2023/IMF-Conditionality
[21] Civil Society Policy Forum (2024). https://www.imf.org/en/About/Partners/civil-society
[22] Bretton Woods Project (2023). https://www.brettonwoodsproject.org/2023/10/reconceptualising-special-drawing-rights-as-a-tool-for-development-finance/

III. Emerging Issues

Economic growth in industrialized countries in the 21st century has depended on the appropriation of labor and raw materials from the global South[23]. Estimations of the drain from the global South over the period of 1960-2018 total USD 62 trillion, or alternatively USD 152 trillion with the inclusion of lost growth[24]. Calculations have also determined the necessary compensation for overshoot of industrialized countries in the context of fair shares to the global South at approximately USD 192 trillion[25].

High-income countries have repeatedly missed deadlines and broken their aid promises. In the more than 50 years since the 0.7% GNI promise was made, donor countries have failed to deliver a total of USD 5.7 trillion in aid. This shortfall means that the world's richest countries owe a USD 5.7 trillion debt to the world's poorest people. [26]

These conditions of historic and contemporary injustice not only strengthen the arguments for sweeping debt, tax, and IFA reforms, but also in terms of calls for reparations to rectify past and present harms. The Global South is looking to the Global North to be held accountable for their historical, economic, ecological, climate and aid debt. While there have been numerous court cases against private companies, those relating to state responsibility and liability in terms of the climate crisis are currently being negotiated, including in the International Court of Justice, the Inter-American Court of Human Rights, and the International Tribunal for the Law of the Sea[27].

The FfD process is crucial in terms of raising awareness and creating the political momentum for a mechanism to allow for the consideration of reparations, particularly pertaining to economic justice. Not only should global South countries be able to finance their own development, they should also receive reparations for past and present injustices that have hindered their development.

For the human development that has been lost resulting from developed countries' inaction, there is an immeasurable moral debt to pay.

IV. Overarching reflections

Achieving a vision of sustainable development entails a transition away from prevailing inequitable and ecologically destabilizing patterns of development, to enable structural socio-economic transformations that would move the world forward in that direction.

Global governance plays a crucial role in this shift by providing a framework for cooperation in addressing global challenges; to achieve development and environmental sustainability; to integrate areas of policy making to achieve co-benefits; and to address consequences of their interactions. It will need to effectively regulate the behavior of states and non-state actors, mobilize resources, implement and enforce commitments, and give countries the space and capacities to chart their own pathways to change.

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[23] Donziger et al. (2024). Global patterns of ecologically unequal exchange: Implications for sustainability in the 21st century. *Ecological Economics*.

[24] Hickel et al. (2021). Plunder in the Post-Colonial Era: Quantifying Drain from the Global South through unequal exchange, 1960-2018. *New Political Economy*.

[25] Fanning & Hickel, 2023. Compensation for atmospheric appropriation. *Nature Sustainability*.

[26] Oxfam (2020). 50 Years of Broken Promises. *https://oxfamilibrary.openrepository.com/bitstream/handle/10546/621080/bn-50-years-broken-promises-aid-231020-en.pdf;jsessionid=5789D231C93E21A5D04901EBA72EF6A7?sequence=8*

[27] Reuters, 2024. Climate court cases that could set precedents around the world. https://www.reuters.com/sustainability/climate-energy/climate-court-cases-that-could-set-new-precedents-around-world-2024-05-21/

Global governance for sustainable development will by no means be neutral. It will need to steer this process in favor of the marginalized and voiceless: the poor and future generations. To be truly sustainable, it must be democratic, pro-poor, inclusive, and rights-based.

Reforming governance should be in the direction of greater democratization and strengthening people's rights. A rights-based approach reframes the processes and outcomes of sustainable development as entitlements to which people individually and collectively possess an inherent claim. As claims, they yield duties and responsibilities on other actors and institutions to fulfill them. A rights-based approach leads to an analysis of constraints to the realization of rights embedded in power structures. It demands that institutions of governance work to secure social arrangements where rights can be best realized. Moreover, translating sustainable development governance processes and outcomes as rights increases the "assets" of poor and discriminated groups vis-à-vis powerful actors, and facilitates systemic transformation.

Democratizing global economic governance must go hand in hand with promoting greater equity in the distribution of wealth upon which power rests. The transition to truly sustainable development pathways requires the democratization of access and control over productive resources and "environmental space" within and between countries to ensure the needs of all, especially the poor and marginalized, are met without breaching ecological limits.

A rights-based approach leads to an analysis of responsibilities of actors and institutions when rights are unfulfilled, and thus facilitates in locating accountability and in seeking remedy. It provides tools for institutions and actors to consider the impact of their policies on the realization of other rights and development goals.

This is the spirit of the FfD.

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