PREPARATORY PROCESS FOR THE FOURTH INTERNATIONAL CONFERENCE ON FINANCING FOR DEVELOPMENT (FfD4)

Inputs from the UN Regional Commissions for the Elements Paper on Financing for Development

Economic Commission for Africa (ECA)

Economic Commission for Latin America and the Caribbean (ECLAC)

Economic and Social Commission for Asia and the Pacific (ESCAP)

Economic and Social Commission for Western Asia (ESCWA)

Economic Commission for Europe (UNECE)

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Inputs for the Elements Paper on Financing for Development

UN Regional Commissions

This note provides inputs to the Elements Paper on selected areas from the perspective of the five United Nations Regional Commissions. They are based on a detailed joint policy brief, **Proposals for the the 4th International Financing for Development Conference: Perspective from the United Nations Regional Commissions,** which will soon be published and made available on the Conference website.

(a) Domestic Public Resources

Domestic public resources are a key source of funding for the transformative changes needed to achieve Sustainable Development Goals (SDGs). However, emerging and developing countries face significant challenges in strengthening domestic resource mobilization capacities for a variety of reasons, including high levels of tax evasion and avoidance, narrow tax bases, and regressive tax structures that favor indirect taxes.

Strengthening tax collection mechanisms and creating sustainable public finance frameworks are essential for fostering economic stability and pursuing inclusive and sustainable development. Key areas that require policy attention include reinforcing personal income taxes, addressing tax evasion to enhance tax potentials, and reviewing tax expenditures to mobilize the resources necessary for public investment.

One of the most pressing issues is the need to reinforce direct taxation, particularly personal income tax reforms by prioritizing fairness and progressivity, which remains weak in many countries. Effective reforms could include adjusting marginal tax rates, and improving the treatment of different types of income, alongside expanding wealth and property taxes. Countries must also combat tax evasion and avoidance, trade-based illicit financial flows, and curb unrewarding/unproductive tax incentives. These tax expenditures and tax leakages not only result in substantial revenue losses but also undermine the equity of the tax system.

Tax reforms should aim to reduce informality, broaden the tax base, and improve compliance. There is a positive correlation between formal employment and tax compliance, as workers in the formal sector are more likely to contribute to public revenues. With regards to broadening the tax base, high-net worth individuals and designated nonfinancial businesses and professions (DNFBPs) often pay disproportionately low taxes, contributing to widening disparities. Implementing a net worth tax could be an effective tool to counteract this trend. Such taxes, designed progressively with exemptions for lower wealth thresholds, could enhance revenue mobilization while promoting greater equity.

Policymakers should explore environmental taxes, such as carbon taxes, to mobilize resources while incentivizing sustainable consumption and production patterns. Carbon taxes not only provide an avenue for raising public revenues but also encourage the transition to low-carbon economies. The implementation of these taxes, however, must be carefully managed to avoid their likely inflationary and regressive impacts on vulnerable populations, particularly those dependent on fossil fuels for their livelihoods, as well as mitigate the challenges imposed by carbon border

adjustment measures. Revenue raise by carbon taxes is relatively low respect to the investment needs, hence carbon taxes should be thought as part of a broader financial strategy.

Environmental taxation can also be expanded to include public health-related taxes, such as those on sugar-sweetened beverages and other unhealthy products. These taxes not only raise funds but also encourage healthier consumption patterns, aligning public health goals with fiscal policy.

In resource-rich countries, the extractive sector presents a unique opportunity for revenue mobilization. However, governments often struggle to capture a fair share of the economic rents from extractive activities. Reviewing production sharing arrangements coupled with a well-designed fiscal framework, incorporating progressive royalties and taxes on economic rents, is essential to ensure that resource-rich countries can benefit from their natural wealth. It is vital that these frameworks strike a balance between adopting thin-capitalization rules and ensuring fair returns for the public while maintaining an attractive environment for investment.

Strengthening tax administration with support from digitalized tax systems can lead to significant gains. Digital solutions are increasingly emerging as a key ingredient of effective and efficient tax administration for robust tax revenue enhancement. Well-designed electronic tax filing and payment as well as digitalized collection, storage, analysis and sharing of tax data can lead to substantial time and cost savings for both taxpayers and tax authorities, much more effective tax auditing and enforcement, and greater transparency and accountability of the whole tax system. Developing countries, must address governance, technology, and capacity challenges to fully leverage these digital opportunities. Equally, there is a need for capacity support to revisit tax and investment treaties to restore taxing rights and redefine digital presence and their taxation parameters.

In addition to focusing on tax revenues, fiscal space can also be expanded by improving the efficiency of public spending. Enhanced public financial management strategies are crucial for ensuring that public resources are allocated effectively, reducing waste, and improving service delivery. Transparent public procurement processes, credible budgets, and strong institutional frameworks are needed to maximize the returns on public spending. Investment planning should incorporate mechanisms for coordination across various levels of government — both national and subnational. Improved public financial management will also bolster investor confidence, leading to greater private investment in infrastructure, education, and health.

To complement national reforms, international tax cooperation is critical, particularly in combating cross-border tax evasion and improving the taxation of multinational corporations.

The passing of the historic resolution on UN Framework Convention on International Tax Cooperation (UNFCITC) is expected to lay the foundation for a fairer international tax system. Leveraging FfD4 processes could play an important role as enabler and platform to ensure a concerted approach to accelerate efforts in developing an ambitious UNFCITC, which can re-establish the policy space for developing countries to fully use taxes for the betterment of all their citizens. The convention should, for example, deliver immediate benefits in line with the agenda set out in 2015 by the AU/ECA High Level Panel on Illicit Financial Flows from Africa, including for all countries to obtain access to information on offshore financial accounts, on the beneficial ownership of companies, trusts and other special purpose vehicles, and through public, country by country reporting of multinational companies profits.

The fiscal challenges faced by developing countries are substantial, but they are not insurmountable. By reforming tax systems, strengthening tax administrations, diversifying tax bases, enhancing public spending efficiency, and strengthening international cooperation, countries can mobilize the resources needed to finance sustainable development. Urgent action is required to address the deep inequities in wealth distribution, combat tax evasion, and harness new sources of revenue, such as wealth and environmental taxes. A comprehensive approach that includes both national reforms and global cooperation is essential to achieving a fairer, more inclusive, and sustainable future.

(b) Debt and Debt Sustainability

The recent surge in global public debt has emerged as a major challenge for developing countries to effectively pursue sustainable development. The current international financial architecture limits access by developing countries to long-term and affordable development finance. Simultaneously, the worsening impacts of climate change further threaten fiscal stability and debt sustainability, placing additional stress on economies already stretched thin.

There are three distinct sources of public debt distress. One, economic and fiscal mismanagement; two, temporary liquidity shocks; and three, significant development deficits and gaps in climate financing. **Recognizing these different underlying sources of public debt distress and the necessity of differentiated treatment for each is the first step towards a systematic and coherent response to the contemporary public debt and development financing challenge**. Importantly, scaling up ex-ante development transfers voluntarily would be a much more desirable option for the international development community than being forced to provide complicated and painful ex-post debt reliefs.

Debt relief and restructuring mechanisms must be expanded to include middle-income countries and updated to reflect the realities of today's financial landscape. Coordinated collective action by creditors is essential to ensure that debt restructuring processes are timely, equitable, and effective in reducing debt burdens. In the short term, efforts to address the debt crisis should focus on instituting debt service standstills and expanding participation in the G20's Common Framework for Debt Treatments to include middle-income countries. The framework's operations should also be streamlined to ensure equitable debt treatment for all countries. In the medium term, a multilateral debt restructuring mechanism is needed to balance the interests of sovereign debtors and private creditors. Such a mechanism would act as a neutral broker in debt negotiations, ensuring that debt treatments adhere to the UN "Basic Principles on Sovereign Debt Restructuring Processes" and protect the interests of vulnerable countries. Moreover, debt contracts should include contingency clauses that protect countries from insolvency triggered by external shocks, such as natural disasters. This would provide a safety net for vulnerable economies, helping them manage unforeseen crises more effectively.

To reduce risks associated with sovereign debt, borrowing and lending practices must be aligned with the SDGs. This includes improving transparency through a public registry of sovereign debt contracts and developing better methods for assessing sovereign debt sustainability. These changes are vital for distinguishing between liquidity crises and solvency crises, allowing countries to focus

on long-term investments in climate adaptation and sustainable development without risking fiscal collapse.

Moreover, **robust debt management frameworks are needed to prevent inefficiencies and leakages in debt usage.** Transparent governance frameworks should be established to ensure that borrowing decisions are made responsibly and with adequate oversight. Unfortunately, most developing nations lack such frameworks, leaving them vulnerable to political pressures that lead to excessive and unsustainable debt.

Countries should improve their currency risk management capabilities, with technical support from multilateral development banks (MDBs), given that sustained depreciation of national currencies can drastically increase the burden of foreign currency-denominated debt. MDBs can also play a role by absorbing some of the currency risks in their lending practices and promoting the use of local currency in international debt issuance. Expanding local currency borrowing is also essential for reducing vulnerability to exchange rate fluctuations. This can be achieved through the development of local capital markets and the implementation of guarantee and credit enhancement programs. Strengthening these mechanisms would enable developing countries to borrow in local currency, reducing their exposure to foreign exchange risks and fostering the growth of local markets.

Developing countries have increasingly turned to thematic bonds — such as green, social, and sustainable bonds — as a means of attracting a wider pool of investors. While these instruments offer a promising pathway to access capital, their integration into national debt management strategies must be handled carefully. If not properly aligned with broader fiscal goals, these bonds could exacerbate overall debt burdens or increase exposure to foreign exchange risks. **A coordinated approach across government sectors is necessary to ensure that thematic bonds support sustainable development objectives without undermining fiscal stability.** This would involve identifying suitable projects and aligning bond issuance with long-term development strategies.

(c) Systemic Reform of the Global Economic Governance

To reflect the changing global dynamics, **the governance structures of international financial institutions must be reformed to increase the representation of developing countries.** A key proposal is to de-link lending decisions from voting powers, including revisiting how new SDR issuances are distributed and how unused ones are recycled. An update to the quota formulas used by the International Monetary Fund (IMF) should ensure that they better reflect the populations of member countries. With better representation, developing economies would benefit from proportionally greater influence on policy decisions. Consequently, policies that affect the global economy could align better towards their needs and priorities. The move would also partly translate into improved access to resources for development financing as the IMF quotas are linked to the availability of loans for the IMF members.

The international financial safety net needs to be strengthened significantly. In this vein, MDBs and bilateral creditors should play a more active role in providing countercyclical financing during crises**.** Unused Special Drawing Rights (SDRs) represent an underutilized resource that could be deployed to countries in need to finance their development initiatives and reduce reliance on more expensive external borrowing.

Lending capacity of MDBs to effectively support sustainable development needs to increase. Proposals in this vein include capital increases, better utilization of existing capital, and more flexible lending criteria**.** These measures are crucial in supporting the growing financing needs of developing countries, particularly as they navigate the challenges of sustainable development.

Major development banks have proposed capital increases as a necessary means to raise lending capacity to meet the growing financing needs of developing countries. At the global level, in 2023, the World Bank announced plans to raise its capital, which would expand its lending capacity by between US$ 100 billion and US$ 125 billion over the next decade. At the regional level, for example, the Union of Arab Banks pledged to increase concessional SDG financing to $1 trillion by 2030.

Other initiatives to increase development bank lending capacity include the modification of capital adequacy frameworks. According to a G20 study, this could raise the global investment capacity of multilateral banks by between USD 500 billion and USD 1 trillion without compromising their credit rating (Léautier and others, 2022; G20, 2023). The World Bank is also considering increasing guarantee amounts and hybrid capital, including by recycling special drawing rights (SDRs), making more efficient use of callable capital and expanding concessional financing.

The recycling of SDRs from developed to developing countries offers a promising avenue for increasing global liquidity. The 2021 SDR allocation provided much-needed relief to developing nations, but there is still much potential to optimize the use of these resources. Proposals for the automatic issuance of SDRs during crises, based on pre-established conditions, would ensure a faster response in future financial emergencies, preventing delays due to political gridlock. In addition to reforming the SDR system, greater emphasis must be placed on enhancing South-South cooperation, along with triangular and horizontal collaboration. This multidimensional approach is essential for building resilient and sustainable financial systems across the developing world, particularly as these countries face a wide array of financial, governance, and capacity-building challenges.

The international financial system must also provide higher levels of concessional financing to developing countries, and this should not be determined solely by income levels. The current "graduation" system, in which countries lose access to concessional financing once they cross a certain income threshold, is overly rigid. Instead, a more flexible "gradation" approach is needed, allowing countries to access financing based on their ability to mobilize domestic resources and effectively pursue sustainable development. This shift would enable countries to maintain access to concessional finance for longer periods, supporting their development efforts while managing economic vulnerabilities.

The current global credit rating system, dominated by private agencies, often fails to consider long-term risks and sustainability metrics. This oversight can lead to unfair assessments, particularly for developing countries, which are already grappling with debt and limited access to affordable financing. **Reforming credit rating methodologies to incorporate a broader range of assessments, including environmental and social risks, is critical for creating a more transparent and equitable system.**

The need for comprehensive reforms in the international financial architecture has never been more pressing. With many emerging and developing countries experiencing debt-related development distress, immediate action is required to modernize global governance, enhance debt management

frameworks, and establish more equitable debt resolution mechanisms. Without swift and decisive reforms, the path toward achieving the SDGs will be increasingly difficult, raising the risk of further economic instability and widening social inequality.

(d) International Development Cooperation

Official Development Assistance (ODA) reached a record USD 211 billion in 2022, yet it still falls short of global commitments. OECD-DAC countries contributed only 0.36 percent of their Gross National Income (GNI), well below the 0.7 percent UN target.

Strengthening the development finance landscape requires the unequivocal fulfillment of ODA commitments and matching pledges with actual disbursements, ensuring concessional resources are available for sustainable development. ODA must be additional, untied, and fully met. Unmet ODA falling short of the commitments represents an outstanding financial obligation. Debt relief should not be counted as ODA, nor should undisbursed portions offset future ODA shortfalls. ODA should align with national development priorities and targets, enhancing its effectiveness in delivering public goods and services, with a focus on maximizing the grant element for concessionality. ODA should be deployed to crowd-in private capital, ensuring critical social sectors are adequately invested in and create favorable conditions to incentivize public-private collaboration to support social infrastructure.

Targeting development cooperation towards fiscally constrained and debt-vulnerable countries is essential, but **debt relief should not be discounted or construed as ODA flows in as much as ODA should remain concessional with evident grant elements.** Integrated National Financing Frameworks (INFFs) can guide ODA allocations to align with national sustainable development priorities and improve its effectiveness. Lastly, support for humanitarian and reconstruction needs must not detract from cross-border ODA flows whose metrics should be reconsidered along with its grant threshold equivalents.

Concessional finance, blended with private finance must garner more attention, as it can play a critical role in de-risking investments towards SDGs and create a more favorable environment for private sector participation. Multilateral Development Banks (MDBs) should lead by example, not only in providing concessional finance but also in supporting capacities to crowd-in private capital. MDBs can offer technical assistance, policy guidance, and risk mitigation instruments such as guarantees, which lower the risk profile of investments, making them more attractive to private investors. Scaling concessional finance and increasing adaptation financing to 50 percent of total climate funding should be prioritized. MDBs should pursue alignment with UN initiatives like the SDG Stimulus and the 'Triple Agenda' reforms, aimed at increasing concessional finance, mobilizing blended finance, and supporting long-term regional projects.

National development banks (NDBs) are crucial for mobilizing the required financing, including from private sources, to reach countries' climate and developmental objectives. One of the main barriers to expanding NDB financing for productive development is limited access to low-cost sources of financing, and insufficient long-term capital. The above limits its ability to finance transformative investment projects, which may require long gestation periods, significant volumes of long-term financing, and require a large initial capital investment. **Closer cooperation between MDBs and NDBs**

can significantly increase scale in the provision of public financing by leveraging the lending capacity of multilateral banks.

(e) Private Finance

Private business activity is essential for driving productivity, inclusive growth, and job creation. And a more dynamic and sustainable business sector will only arise with more inclusive and sustainable financial markets. Ensuring that private finance flows at scale towards the SDGs would require a suite of integrated actions by policymakers and regulators to address the misalignment of financial incentives with long-term sustainability horizons which represents a significant constraint on private sector engagement and development. Addressing investors' short-termism can also help them achieve economies of scale while simultaneously reinforcing the stability of the financial sector. Assessing thin-capitalization rules, FDI concentration, sectoral distribution, job creation potential, and reinvestment thresholds should be part of a comprehensive set of actions aimed at enhancing the impact of investments on achieving the SDGs.

Strengthening the banking sector through a supportive regulatory environment would improve financial intermediation, foster the development of sophisticated financial products, and enhance financial inclusion. Stringent collateral requirements and incomplete asset registration systems limit access to credit. Developing appropriate registries is therefore essential. Efforts should be made to address both supply and demand factors that contribute to the underdevelopment of capital markets. For smaller countries, this effort would benefit from adopting regional standards and integrating market infrastructures. Additionally, focusing on alternative financing sources, such as private equity, could further enhance financing opportunities.

On the supply side, reducing the high cost and onerous regulatory requirements can encourage more institutions to raise capital through capital markets. Investors require a sovereign credit rating to assess the risk associated with a bond issuance by sovereigns. Lower sovereign ratings induce a perception of high risk in emerging markets and developing countries, which is associated with the so-called perceived credit risk premium that investors ask to hold sovereign bonds. It is therefore essential to provide capacity building on sovereign credit rating to assist countries better engage in this process to get a rating that better reflects capacity to pay back their debts.

On the demand side, expanding the investor base beyond local banks and building capacity among domestic institutional investors for dealing in fixed income instruments is essential. Deepening capital markets, for instance through developing local currency bond markets, could greatly contribute to mobilization of more resources for financing inclusive green industrialization, social inclusion, and growth-promoting infrastructures that require adequate guarantee schemes against currency and other risks.

To advance financial inclusion, the public and private sectors must work to improve financial and legal institutional frameworks, strengthen economic stability, and support the establishment of new instruments for managing economic and financial risk. A new approach to financial inclusion is also needed to channel resources towards the productive sector and development targets. Development banks play an important role in spurring innovation in financing, both directly and in coordination with other banks.

New investment promotion strategies are essential to attract private capital to key sectors requiring extended guarantees, solutions to foreign exchange risks, scaling of capital markets and securitization, country-level approaches to improve enabling environments, and the advancement of bankable project pipelines. The challenge of attracting and retaining FDI that contributes to sustainable and inclusive development in emerging and developing countries remains as relevant as ever, and countries must make efforts to enact the right kind of policies if they are to attract FDI that supports their development process and the realization of investment potential to build capacities, create quality jobs, transfer technology, and enhance the diversification and sophistication of the production mix.

The available evidence shows that integrated policies that incorporate FDI attraction into a long-term strategy—focused on both efficient resource allocation and effective coordination, while also maintaining alignment with long-term productive development targets—are more successful at fostering well-being than policies based solely on incentives such as subsidies or tax breaks. From this perspective, policies aimed at investment in productive development should focus on building the coordination capacity of stakeholders and creating mechanisms for multilevel government coordination.

Remittances have the potential to meet development needs that other types of financial flows are less effective at addressing. Specific policies are required to leverage the potential of remittances to fill development gaps. As an example, **lowering transaction costs could further incentivize the flow of remittances to emerging and developing countries**. Reducing these costs by increasing digitalization and through other means could boost financial flows. Low-income households' access to digital banking could also be improved for receiving remittances, since they are still mainly sent using cash transactions. Finally, the benefits of remittances are largely determined by the regulatory environment. Financial regulations could also further evolve to recognize remittances as collateral for small business loans.

(f) Monitoring and FfD4 implementation follow up modalities at the country and regional level

Effective monitoring of the FfD4 implementation requires an agreed strategy for follow-up, accountability, and tracking. This could include establishment of a standardized reporting framework underpinned by agreed measurable indicators for tracking short, medium, and long-term progress against FfD4 commitments. Further, FfD4 might reflect on some review processes such as mid-term review conferences to assess progress, identify challenges, and adjust strategies and commitments, as necessary. These reviews could also serve as a platform for sharing best practices and lessons learned. In addition, given the unpredictability of the global economy, FfD4 commitments may require developing flexible mechanisms to adjust commitments or strategies in response to unforeseen challenges, such as global or regional shocks.

Overarching Reflections on the Role of Regional Commissions

Within the United Nations, FfD implementation and follow-up has been undertaken mainly through the UN General Assembly's resolutions, quadrennial ***High-Level Dialogues on Financing for Development***, the High-Level Political Forum, and annual ***ECOSOC Forum on Financing for***

Development Follow-up, all of which face their own challenges, notably the reliance on non-binding self-reported reviews and lack of effective accountability mechanisms which limit their capacity to uphold past commitments and/or promote new binding ones

Regional Commissions on their part continue to translate global commitments into regional road maps, supporting the development of Integrated National Financing Frameworks, while publishing thematic FfD reports, empirical assessments, and policy briefs. They are also stepping up their engagement by organizing High-Level Regional Consultations and convening inter-governmental Committees on Financing, contributing to the preparations for the Fourth International Conference on Financing for Development. The role of Regional Commissions with regards to financing for development process should not, however, stop at just organizing such consultations prior to the Conference. Regional Commissions, as the regional arm of the United Nations system, can also play an important role in strengthening the follow-up process and ensuring accountability to and full implementation of commitments (to be) made at the Conference. They can leverage their existing expertise and platforms and forge inter-governmental agreements among member States and other stakeholders to chart out the regional priorities and needs, deliver demand-driven technical assistance, provide a stocktaking of initiatives undertaken as part of the follow-up process.

Co-facilitators should consider including language in the Elements Paper and the draft Outcome Document that underscores the role of such existing platforms and potential support of Regional Commissions in strengthening the follow-up process to the Conference.

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