INTERNATIONAL COMMISSION OF EXPERTS ON FINANCING FOR DEVELOPMENT

FINANCING A SUSTAINABLE FUTURE: PROPOSALS FOR A RENEWED GLOBAL DEVELOPMENT FINANCE AGENDA

Final report of the International Commission of Experts on Financing for Development

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ABOUT THE INTERNATIONAL COMMISSION OF EXPERTS

The Financing for Development process has always sought to engage a wide range of stakeholders. In addition to Member States of the United Nations, these have always included the so-called major institutional actors (IMF, UNCTAD, UNDP, World Bank and WTO), as well as civil society and the business sector. Previous international financing for development conferences (Monterrey, Doha and Addis Ababa) have also shown that, in order to facilitate their work, it has been very useful to have an inspiring technical report prepared by a pluralist group of experts, created on an ad hoc basis to identify the most relevant issues, facilitate the search for new approaches and instruments, and suggest impactful and technically sound proposals. In this context, an International Commission of Experts was established to prepare a report aimed at offering valuable insights and recommendations to enrich the process.

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FURTHER INFORMATION

Information about the International Commission of Experts on Financing for Development can be found at: **https:// inancing.desa.un.org/ICE/home**.

TABLE OF CONTENTS

I. The basic objectives of the Fourth International Conference on Financing for Development 04

II. Tax cooperation and combating illicit capital flows 07

III. Development cooperation: Enhance the role of multilateral and national development banks and support the development of domestic bond markets 10

IV. Development financing: ODA and concessional financing 14

V. Environmentally sustainable finance 18

VI. Trade, industrialization and investment issues 20

VII. Sovereign debt restructuring 23

VIII. Strengthening the global safety net 26

IX. Pending issues in financial regulation 31

X. Critical institutional issues 32

I. The basic objectives of the Fourth Conference on Financing for Development

A. A renewed, strengthened and accountable commitment

At the Third International Conference on Financing for Development in Addis Ababa, the international community declared its "strong political commitment to address the challenge of financing and creating an enabling environment at all levels for sustainable development in the spirit of global partnership and solidarity." Member States recognized that achieving the ambitious Sustainable Development Goals (SDGs) "will require an equally ambitious, comprehensive, holistic and transformative approach with respect to the means of implementation."

Ten years on, the record of achievement falls far short of what was envisioned. The SDGs are far off track. If we continue along the same path, most of them will not be achieved by 2030. Due to shocks, crises and unexpected events as well as lack of political will to deliver on commitments made, the SDGs, as an international framework for action, have been systematically undermined. The international financial system has proved to be ill-suited to support the investment needed and drive transformative change, due to its fragmented configuration, its focus on partial and short-term goals, and its limited concern for environmental sustainability and other international public goods – both global and regional.

The much-vaunted transition from "billions to trillions", which envisaged that public financing and interventions would leverage large amounts of private investment into the SDGs, never materialized. The quantity, quality and types of finance mobilized have proven insufficient for the task. Instead, resources continue to flow uphill, from poor countries to rich ones, with developing countries often receiving far less than the intrinsic value of the resources they produce, while also bearing the macroeconomic risks associated with procyclical private financial flows. The problems of rising inequality, persistent famine, recurrent humanitarian crises, financial instability, slowing growth and the fragmentation of international trade have persisted or worsened.

New challenges have also arisen since 2015. Global risks linked to climate emergencies, viral crises and armed conflicts have increased in the context of a worrying weakening of international rules and institutions. A growing number of countries today face severe debt repayment difficulties, compounding these challenges and limiting their ability to respond effectively to them. Accelerated global environmental degradation in particular has raised the urgency for action, as time is running out to avoid irreversible loss. The world has entered a period of successive crises that have seriously affected the living conditions and prospects of its population, particularly the poorest and most vulnerable.

Indeed, these crises threaten to aggravate the divergence between the wealthier North and the poorer South, denying progress to large segments of the global population and heightening international tensions. A similar process is unfolding within countries, where increasingly wealthy and powerful social groups are isolating their living conditions from the large swathes of populations that are threatened by rising inequality, weakened state provision of basic needs, a rollback of human rights and shrinking democratic spaces. As a result, disaffection is growing with democratic institutions and inclusive

policies, leading to political choices that question women's rights, oppose migration, reject multilateralism and encourage authoritarian nationalism. The same trends have also undermined trust in multilateralism.

These crises are also partly the consequence of the fragmented and short-term responses to our challenges, which have failed to enable the international community to build a long-term framework for cooperation capable of anticipating and preventing the systemic risks posed by our production and consumption models.

That is why today, even more than ten years ago, a step-change in financing for development is needed – one that addresses the root causes of distrust in democratic institutions and that replaces short-term and ad hoc responses with a transformative vision. Only with such a transformative and long-term approach can we avoid the further build-up of risks, take advantage of the opportunities that rapid technological progress in digitalization and renewable energy are creating, and lay the foundation for shared and sustainable progress. If no action is taken, new crises will arise in the future, jeopardizing global peace, progress and stability.

The Fourth International Conference on Financing for Development (FfD4) is a unique opportunity to create such a holistic and forward-looking financing agenda for sustainable and more equal development. It must mobilize more and better-quality resources for a massive scaling up of investment to boost economic growth, build resilience, fight poverty and inequalities and support low-carbon and digital transitions. It must improve international rules to create a financial, environmental, trade, investment and tax architecture that enables developing countries to integrate productively in the world economy to capture a fair share of resources generated, and that protects them better against shocks. And it must deliver renewed and more inclusive, representative and effective governance at global, regional and national levels to help rebuild trust in institutions and multilateralism.

B. The Commission's proposals and key messages

To achieve these objectives, the Commission of Experts is putting forward a set of proposals for consideration by United Nations Member States in nine areas: tax cooperation and preventing illegal financial flows; the role of multilateral and national development banks and supporting the development of domestic bond markets; official development assistance (ODA) and concessional financing; environmentally sustainable finance; trade, industrialization and investment issues; sovereign debt restructuring; the global financial safety net; pending issues in financial regulation; and other critical institutional issues. Although most of the measures proposed favour sustainable development in emerging and developing countries, they would also support growth and employment in developed economies and help to curb climate change and loss of biodiversity globally.

Recognizing that building a robust and fair financing system for development requires a continuous process of improvement and adaptation to changing global realities, the proposals include both ambitious measures to be implemented in the short term, aimed at increasing resources and capacities for sustainable development, as well as proposals for institutional and regulatory reforms that may not result in immediate agreements but can pave the way for future resolutions.

In arriving at this set of proposals, several common themes have emerged that cut across financing policy actions and areas and should inform policymaking at all levels. The first is the need to restore and strengthen the transformative role of the State. The State is envisioned as a key driver of development and structural transformation. It regulates and shapes markets for the common good, sets conditions, aligns taxation with developmental objectives, recognizes a broader approach to development cooperation, and makes better use of public resources. The second theme is prioritizing not

only the quantity but also the quality and impact of resources, removing barriers that currently limit countries' policy choices, and replacing a short-term project-focused agenda with an approach that aligns resources with collectively defined long-term priorities and impact. The third is strengthening the currently weakened multilateral system, including complementing it by creating and reinforcing regional platforms.

C. Strengthening the transformative role of States and making better use of public resources

The 2015 Addis Ababa Action Agenda emphasized the use of public resources to leverage private investment for the SDGs through mechanisms like public-private partnerships and blended finance, while noting the need to carefully consider how these instruments are used and structured, including the need to share both the risks and rewards fairly. However, these expectations have not been met, neither in quantity nor in quality. Because the private sector generally maximizes risk-adjusted financial returns, it cannot adequately finance transformative investment, particularly when social risks, international public goods and externalities are not appropriately priced.

To overcome the inertia of doing-business-as-usual, it is time to foster the spirit of public entrepreneurship with three core features: a comprehensive long-term vision oriented towards the achievement of structural transformation within natural and planetary boundaries and the fulfilment of human rights; acting decisively and flexibly, as well as at scale, in the presence of uncertainty and risk; and the creation of learning-by-doing feedback loops to enable bottom-up initiatives to flourish and scale up. A better use of the transformative capacity of States should be central to both national and international efforts, with a more targeted use of public resources and a mission-oriented approach to public finance and public policy. Even mobilizing private resources that are more effectively aligned with sustainable development requires sound public resources and capacities, pricing mechanisms and adequate regulatory regimes.

D. Achieving sustainable development impacts at scale

Not all financial flows have the same effect on people's lives or the environment. It is important to focus not just on the quantity of mobilized resources but also on their quality and impact on sustainable development. The mainstream "from billions to trillions" agenda has primarily taken a project-level approach, focusing simply on mobilizing more money with little attention to long-term transformative change and without addressing the barriers to sustainable impact at scale. There has also been insufficient attention to addressing financing flows and regulations that are damaging to sustainable development.

Truly transformational finance requires bold and effective development policies, policy sovereignty and a coherent planning framework focused on long-term goals and impact and based on robust social contracts that promote robust citizenship. It should involve all stakeholders, including public and private actors as well as civil society, to view and evaluate projects and programmes in a holistic manner as stepping stones to long-term goals. It requires shaping markets to address systemic barriers as well as existing inequalities and align public and private interventions with the enabling conditions for sustainability. Therefore, the Conference must consider both the resources mobilized and the regulatory and institutional changes needed to get incentives right to work towards sustainable development impacts at scale. The ultimate aim is to create an international institutional framework that enables financial resources to be allocated to national, collectively defined sustainable development priorities.

E. Supporting multilateral action and a denser international governance structure

Over the years, the multilateral system has weakened due to its inability to adapt to global changes and because some powers have pursued their own specific interests at the expense of international cooperation. Yet many global challenges, from rising poverty and inequalities, biodiversity loss, climate change, conflicts,

and preserving global health, food security and financial stability, require collective international action. Despite its flaws, the multilateral system remains the most appropriate framework for fostering such global cooperation. Strengthening and reforming this system by ensuring that its institutions have the proper mandates, financial resources and governance structures is crucial for advancing development policy and addressing global challenges effectively. To achieve greater legitimacy, it is equally important to reform governance and adapt the representation of countries in global institutions to changing international realities.

At the same time, the complexity of today's world makes it difficult for global governance to be effective and inclusive if it relies solely on universal structures defined at the global level. It is necessary to strengthen regional spaces for dialogue and cooperation in a complementary way, to build robust governance frameworks deployed at various levels. It can be easier to build trust between countries and create governance structures that are more accessible to all members at the regional or plurilateral levels. These regional structures also allow for international dialogues to be based on greater respect for the diversity of visions and interests of the countries and regions involved. The principle of subsidiarity is also relevant in development, as decisions and processes should be handled by governance bodies that are closest to the social reality and the citizens they serve.

II. Tax cooperation and combating illicit capital flows

A. International tax cooperation

International tax cooperation should correct major problems that the global tax system faces: inadequate taxation of high-net-worth individuals, profit shifting by multinational corporations (MNCs) towards low-tax jurisdictions, and tax evasion by companies and rich individuals facilitated by declaring their income and assets in tax havens. These processes have exerted pressure on governments to lower tax rates to limit capital flight and attract corporate investment and prevent the change in tax residence of rich individuals. To strengthen international tax cooperation, the 2021 decisions of the Organisation for Economic Co-operation and Development (OECD) Inclusive Framework on Base Erosion and Profit Shifting should be fully implemented, and a strong United Nations Tax Convention should be adopted, as already agreed by Member States. The Convention should encompass the following principles and issues:

a. **Fair taxation of MNC profits:** It is essential to guarantee a fair allocation of taxing rights among countries that fully consider the activities of the MNCs in all countries where they operate. This would require the development of a nexus rule based on the principle of significant economic presence, whereby a taxable presence will be created also in the countries where the firm does not have residence but has significant business activities. The development of these principles could include a system of worldwide unitary taxation and formulary apportionment of MNCs, similar to that which exists in some federal systems.

b. **Increasing the agreed minimum corporate tax rate:** The minimum 15 per cent tax rate agreed in the OECD Inclusive Process should be enforced. The United Nations Convention should also consider raising it up to 25 per cent, which is closer to the global average. Additionally, coordination of the taxation of windfall or excess profits and strengthening of anti-avoidance instruments are needed.

c. **Developing coordinated mechanisms for digital services taxes.**

d. **Clear criteria for taxing activities associated with the exploitation of natural resources.** Tax incentives (tax waivers, holidays, reductions, and so forth) for corporations engaged in natural resource exploitation should not be allowed.

e. **Public country-by-country reporting of MNCs' economic activities should be expanded,** based on the robust Global Reporting Initiative standard for public reporting on taxation.

f. **Adequate taxation of the income of very rich individuals:** Common principles and minimum standards for the taxation of the income of the world's super-rich and each country's very rich individuals should be adopted. The agreed standards should include anti-avoidance instruments, such as a global minimum tax on their income, and opening the space and encouraging the **taxation of wealth as a complement to the taxation of income.** Indeed, the proposal for a minimum tax on the very rich could be negotiated as one of the early protocols of the Convention.

g. **Creation of a global asset registry:** Common principles and minimum standards for ensuring the transparency of wealth ownership should lead to the creation of a global asset register that identifies the final beneficial owners of all assets, combining public data components and components held privately for tax authorities and other enforcement bodies.

h. **International technical assistance:** Developing countries' efforts to improve the technical capacity, institutional strength and operational autonomy of their tax agencies should continue to be supported with international technical assistance and concessional funding to enable more effective tax collection and inspection, and to facilitate the progressive integration of digital tools into the process.

B. Create an appropriate institutional structure for international tax cooperation

To create an appropriate institutional structure for international tax cooperation, action must be taken in two areas:

a. **Create an appropriate system of governance for international tax cooperation**: The best alternative is the transformation of the UN Committee of Experts on International Cooperation in Tax Matters into an intergovernmental organ. The alternative is to create a new United Nations organization in charge of such cooperation.

b. **Encourage regional tax cooperation processes:** Both the African and Latin American mechanisms must expand tax cooperation activities among their members in order to build a fair, inclusive and sustainable international tax system from the bottom up, and new mechanisms of regional cooperation should be created in other regions.

C. Prevent existing international agreements from blocking the required changes

Currently, many Free Trade Agreements, Economic Partnership Agreements and Bilateral Investment Treaties constrain progressive tax reform, because companies can sue governments under Investor-State Dispute Settlement (ISDS) clauses. This is especially true because of the very loose definitions of "investment" and "expropriation" in such agreements, with most of the case law going against sovereigns. This requires action in several areas:

a. **Prevent the ISDS agreements from limiting tax cooperation:** Global tax coordination will need to reach agreements on superseding such clauses and preventing ISDS moves by companies in appropriate contexts and cases.

b. **Revise the relevant rules:** Many such agreements and their dispute settlement mechanisms need to be revisited/ reformed. We return to this issue in section VI below.

c. **Improve the relevant dispute settlement mechanism:** The architecture of dispute settlement needs to be calibrated, as a level playing field is not really balanced when economic and geostrategic power is very unequally distributed.

D. Combat illicit financial flows

Illicit financial flows pose significant challenges to the fiscal health and development of many countries, particularly in the Global South, but also impact advanced economies by eroding public tax revenue. Measures required include:

a. **Adequate information:** To avoid ambiguity, governments and international organizations should harmonize definitions of key concepts such as illicit flows, tax evasion, trade mis-invoicing, capital flight and beneficial ownership. All these practices should be identified even when mixed with what are legal activities. This should be coupled with centralized, secure data platforms to collect, analyse and share financial and trade information across jurisdictions.

b. **Enforcing existing rules:** Governments in advanced economies must enforce regulatory frameworks to ensure that financial institutions adhere to stringent transparency and due diligence standards. Banks should be required to identify and verify the ultimate beneficial owners of accounts and report suspicious activities promptly.

c. **Country-by-country reporting of trade transactions:** Mandatory and systematic country-by-country reporting of multinational and national corporations' trade transactions should be adopted to avoid trade mis-invoicing and transfer pricing, which generate massive losses of foreign exchange earnings from exports and tax revenues.

d. **Identifying shell companies and shadow companies:** Governments must adopt clear criteria for defining and identifying shell companies and trusts. The global registry of beneficial ownership already proposed to support international tax cooperation should be made publicly accessible to prevent anonymity in financial transactions. Enhanced monitoring capabilities should be provided to financial intelligence units to investigate suspicious patterns and dismantle shadow company networks.

e. **Supporting institutional capacity-building in developing countries:** Developing nations require technical and financial support to strengthen their capacity to effectively combat illicit financial flows. This includes funding for modern technology systems, training programmes for tax authorities and financial investigators, and the establishment of dedicated units to track and prosecute financial crimes. These efforts should be funded through international public investment mechanisms rather than traditional aid frameworks, ensuring transparency and accountability in resource allocation.

f. **Designing an international protocol on these issues:** A binding international protocol should be designed under the leadership of the United Nations to set global standards for addressing illicit financial flows. This protocol should cover the mandatory exchange of information, corporate transparency, reporting of trade transactions, and appropriate dispute resolution mechanisms. It should also establish clear timelines for implementation and monitoring, with penalties for non-compliance.

g. **Scaling up financial, technical and political support for these initiatives:** This should be led by UNCTAD and UNODC.

III. Development Cooperation: Enhance the role of multilateral and national development banks and support the development of domestic bond markets

A. Enhancing the support of Multilateral Development Banks (MDBs)

Recent proposals from the World Bank, the recent G20 presidencies and the G20 Independent Expert Group (IEG) highlight three priorities for MDBs. Firstly, MDBs must go beyond fostering equitable development to financing developing countries' contributions to international public goods. Secondly, MDBs should boost their operational effectiveness and efficiency, particularly by streamlining processes. Thirdly, closer engagement with the private sector is essential to leverage their role in the provision of international public goods. MDBs should continue to direct strategic and patient long-term finance that emphasizes clear, long-term policy goals that can accommodate the uncertainties associated with development projects and, in particular, with innovations. In addition, MDBs must place the structural transformation of economies as a key engine for delivering development outcomes and overcoming international and regional challenges. Achieving these goals requires enhanced MDB financing capacity and operational improvements. Specific actions include:

a. **Concessional Financing:** MDBs must channel concessional loans or grants funded by ODA to low-income and vulnerable middle-income countries and prioritize mission-driven public investment projects.

b. **Lending in local currencies:** Such lending can reduce exchange rate risks and bolster local capital markets in developing countries. We analyse below how to enhance the use of local currencies. .

c. **De-risking private investment:** MDBs should offer incentives and guarantees to mobilize private investment that is aligned with the broader international public goods agenda following the rules that are analysed below. .

d. **Capitalization:** As recommended by the G20 IEG on strengthening MDBs, tripling MDB lending by 2030 also requires capital increases in addition to the implementation of their Capital Adequacy Frameworks recommendations. Given the challenge of reaching a collective decision, member countries can use their Special Drawing Rights (SDRs) or other national resources to provide capital to MDBs.

e. **Countercyclical support:** Regional MDBs should play a stronger countercyclical role during crises, complementing the active role played by the World Bank in that regard.

B. Foster coordination and cooperation among MDBs

While each MDB operates within its own mandate and structure, closer coordination and cooperation – especially at the country level and in shared priority areas – can generate significant synergies. By doing so, MDBs can share risks for greater capital efficiency, leverage complementarities, reduce duplication and lower transaction costs for client countries. Coordination and cooperation should also include establishing shared principles for joint performance and embedding them into individual MDB operations. To fulfil these objectives the following should be implemented:

a. **Strategic guidance:** Shareholders should set high-level objectives for MDB coordination and cooperation, providing strategic direction.

b. **Integration into performance metrics:** These objectives should be reflected in corporate scorecards, top management

performance assessments and key indicators for regional and country-level programmes.

c. **Progress monitoring:** MDBs should continue publishing concise annual reports outlining their actions and progress, including progress on the G20 roadmap for better, bigger and more effective MDBs.

C. Strengthen MDBs' local currency lending

Traditional sovereign borrowing is typically denominated in hard currencies like the US dollar or euro. This exposes countries to currency fluctuations, which worsen debt burdens when local currencies depreciate. Local currency lending can reduce exchange rate risks, promote economic stability and allow governments to focus resources on growth-oriented investments. Furthermore, some investments, such as in renewable energy financing, may not be able to generate foreign reserves as their proceeds are often in local currency, so that hard currency-denominated loans may result in balance-of-payments problems. Since every option presents specific advantages and drawbacks, MDBs need to adopt a case-by-case approach tailored to the macroeconomic conditions of individual developing countries. Hence, it is crucial for MDBs to scale up local currency finance. There are several options for doing so that are not mutually exclusive and thus can be combined.

a. **Actively use currency hedging mechanisms:** A first alternative is to provide countries with dollar loans and simultaneously offer currency hedging solutions to mitigate exchange rate risks. This would require scaling up the availability and accessibility of such financing instruments.

b. **Partly use the capitalization of MDBs to provide local currency loans:** A second alternative is to use part of the additional capital of MDBs to enable them to provide longer-term and lower-interest local currency loans. Repayments could provide self-sustaining local currency funds for future local currency lending. In any case, issuing hard currency bonds to provide local currency loans could involve currency mismatches, costly swap arrangements and foreign exchange risks that can affect the credit rating of MDBs, which should be clearly avoided. These problems could be moderated if a diversified portfolio of local currency lending is securitized and sold on secondary markets.

c. **Assess implications:** MDBs could explore the costs and operational implications of systematically offering client countries the choice between borrowing in a foreign currency or reducing currency risk by indexing debt repayments to the local exchange rate.

d. **Technical assistance:** MDBs could ramp up technical assistance and capacity-building on foreign exchange risk management in client countries, particularly with regard to the implications of borrowing in hard currency for debt sustainability.

e. **Increase affordability:** MDBs should identify options to increase the affordability of currency risk hedging, particularly in lower-income countries. For longer-term sustainability, and especially for operations in the private sector, MDBs should consider boosting onshore hedging options through technical assistance for money market development and by building and managing local pools of liquidity through shared treasury services.

D. Promote and invest in country systems

The ultimate goal of MDB environmental and social frameworks and procurement standards should be to rely on countries' own legal and regulatory systems. While most MDB policies allow for this under certain circumstances, staff often hesitate to implement them due to risk aversion and concerns about management and board reactions. We therefore propose the following steps:

a. **Encourage the use of existing policies:** MDB management and shareholder boards should encourage the use of existing policy

provisions for greater reliance on country systems, supported by adequate resources and clear guidelines.

b. **Capacity-building:** As indicated previously, shareholders should urge MDBs to collaborate on strengthening client capacity-building, especially in low-income and vulnerable countries, to enable greater use of country systems.

E. Unleash the full potential of national development banks (NDBs)

Public development banks (PDBs), including over 350 NDBs from 150 countries with combined assets of $23 trillion, hold immense potential to drive economic transformation and address market failures. However, many NDBs need to fully capitalize on their capacity to provide large-scale, long-term and high-risk capital for structural change. To maximize their role in financing the SDGs, it is critical to foster coordination between MDBs and NDBs, and to establish a system-wide set of objectives, incentives and monitoring mechanisms.

a. **NDBs should support the structural transformation of developing countries:** At the strategy level, they should take the lead in embracing a comprehensive approach to financing SDGs by pursuing a structural transformation in a sustainable, equitable and resilient manner. This should include supporting the transformation of the productive sectors, including active industrial policies and support measures for small- and medium-sized enterprises.

b. **At the operational level, NDBs should focus on long-term goals with all stakeholders:** NDBs should focus on long-term goals recognizing the scale of the challenges and potential pathways and roadmaps to achieve these goals, and advance a planning framework involving all stakeholders, including public and private actors as well as civil society.

c. **NDBs should work as an ecosystem to create synergies:** To achieve transformational scaling, it is crucial to foster partnerships among NDBs and with MDBs.

d. **Integrated networks:** MDBs must constitute a comprehensive service network, collaborating closely with NDBs and other public institutions in developing countries.

F. Support the development of local bond markets

Domestic bond markets can make a significant contribution to the reduction of the foreign exchange risks of public and private indebtedness in developing countries. The development of those markets should therefore be an essential element of international cooperation, particularly by the IMF and the World Bank, but also as part of South-South cooperation, whereby countries that have successfully developed those markets can support other countries to do so. However, this would necessarily be a gradual process and may not be possible in several countries, particularly small and low-income ones. Furthermore, to the extent that those markets often result in shorter maturities and higher costs, MDBs could support the process by taking duration risks.

G. Scale up support for high-quality project pipelines

Financing without the presence of viable projects is ineffective. Strong project pipelines are essential but face three main challenges: weak, unregulated markets that hinder project opportunities from turning into actual investments; project preparation facilities that are fragmented with diverse mandates, focus areas and business models; and financing for project preparation that is modest relative to the scale needed and that often requires grant-based technical assistance. To address these challenges, we propose:

a. **Increased investment:** Shareholders and MDBs should allocate more resources to project preparation, focusing on capacity-building and strengthening country ecosystem development.

b. **Strengthened support for technical assistance:** More non-reimbursable funds should be allocated specifically for technical assistance aimed at high-quality project formulation.

c. **Enhanced coordination:** MDBs should better support project preparation and funding for large-scale and/or regional projects using country platforms and collaborative co-financing platforms.

d. **Improved incentives:** MDBs should align incentives to foster coordination between their public and private sector arms in support of market creation and project development.

H. Additional private resources mobilized and capacities aligned with the SDGs

Public financing alone cannot fully address the SDG challenges. Development cooperation must strategically use public funds to mobilize additional private resources through instruments such as blended finance, guarantees, insurance and other de-risking mechanisms. MDBs and NDBs can play an important role in promoting this objective. However, it is essential to prioritize national objectives, ensure sustainable development impact and set realistic expectations about the potential of using public resources for this purpose. Existing OECD data indicates that the private resources mobilized with public support are mainly allocated to middle-income countries, with low-income countries receiving only 5 per cent. It is therefore essential to:

a. **Align private resources with public goals:** Private resource mobilization must serve public purposes and demonstrate clear, sustainable development impact. This includes embedding SDG-aligned conditions to ensure resources are directed towards high-impact projects.

b. **Develop a framework for measuring and ensuring alignment with development outcomes:** To guarantee such alignment, efforts should be made to design methodologies and strengthen the evaluation frameworks and alignment mechanisms for de-risking private investment, including conditionalities. These frameworks should include development and SDG-related impacts to ensure that the true development impact of these initiatives is accurately captured and assessed. Comprehensive pre- and post-investment impact assessments should be publicly disclosed to enhance transparency and accountability.

c. **Ensure additionality:** Additional resources must supplement and not replace what the private sector could achieve independently.

I. Address the pitfalls of private sector mobilization

Private sector financing is often assumed to be more efficient. However, in practice, risk aversion among private agents can lead to excessive public subsidies and profit-driven motives that may result in funding projects with lower development impact compared to direct public financing. To optimize private sector involvement, public institutions must design the most appropriate toolkit to address those risks. Key components include:

a. **State-contingent subsidies:** Use subsidies tied to realized project returns so as to capture the upside where possible to address private risk aversion, while implementing safeguards against moral hazard.

b. **Auction mechanisms:** Implement auctions to determine the minimum subsidy needed, reducing the risk of the private sector extracting excessive subsidies, while ensuring adequate regulation and monitoring to prevent subsequent cost reductions that are done at the expense of safety, workers or other social considerations.

c. **Mandatory financing targets:** Set overall targets to ensure that private sector investments prioritize high-impact projects and prevent underfunding while capturing unwarranted subsidies.

d. **Socializing risks and rewards:** Blended finance should include mechanisms that share both risks and rewards, such as equity stakes, royalties or profit-sharing agreements, ensuring that public resources benefit proportionally from successful projects. Returns from public investments should be reinvested into future mission-driven initiatives, fostering a sustainable financing cycle.

e. **Utilizing equity or "equity-like" instruments:** These allow the public sector to capture the financial upside for appropriate investments, which would help to prevent over-subsidizing the private sector.

f. **Prescribing asset requirements:** These can be an effective strategy for countries to mobilize domestic investment for development. As a domestic policy tool for national governments to consider, these requirements impose mandatory minimum thresholds on financial assets (or certain classes thereof) to be invested in designated investment vehicles with funds ringfenced for specified development purposes such as infrastructure, the green transition or social development.

IV. Development financing: ODA and concessional financing

A. Promote greater alignment of the development cooperation system with the sustainable development agenda

The development cooperation system has faced growing strains in recent years as a result of the accumulation of additional objectives and responsibilities without a corresponding increase in resources and capacity. The viral crisis unleashed by COVID-19, extreme climate events, humanitarian emergencies and conflicts like the war in Ukraine have diverted significant resources from developing countries, with some spent in donor countries (for example on refugee costs). This shift has prioritized geostrategic interests over the true purposes of ODA, resulting in reduced support for least developed countries (LDCs) and other vulnerable groups, such as landlocked countries, small island developing States (SIDS) and fragile and conflict-affected states. The share of sub-Saharan Africa in total ODA has also declined.

To realign aid systems with the sustainable development agenda and ensure that humanitarian needs are met through additional resources, the original purpose of ODA – "government aid that promotes and specifically targets the economic development and welfare of developing countries"– must be re-emphasized. To meet these objectives:

a. **Define clear commitments:** Countries should articulate their goals and commitments not only in terms of total ODA, but also in terms of the cross-border resources specifically dedicated to developing countries and for development objectives – in particular to achieve the SDGs.

b. **Promote and strengthen country programmable aid (CPA) within aid policy:** The volume of CPA, which reflects predictable ODA resources allocated to recipient countries, should become a key measure of donor effort. Development partners should commit to increasing CPA in terms of volume as well as its share of ODA, to enable international development cooperation to reach recipient countries in a predictable way. Notably, CPA's share of reported ODA by OECD Development Assistance Committee (DAC) members declined from 65 per cent in 2002 to 42 per cent in 2022, highlighting the need for renewed focus.

c. **Prioritize poverty, inequality and vulnerability:** Poverty and inequality reduction, along with economic, social and environmental vulnerability should guide ODA allocation. Progress should be made towards a joint programme between the OECD (DAC) and the Development Cooperation Forum to identify indicators that can guide aid allocation decisions by providers and establish respective monitoring systems.

d. **Support structural transformation and catalyse productive and institutional change:** ODA should support the structural transformation of low-income and vulnerable countries, mobilizing trade and investments for this purpose. Additionally, ODA should serve to stimulate change in middle-income countries and operate as a catalytic agent capable of mobilizing more resources and capacities in the service of sustainable development.

e. **Link ODA with the international public goods (both global and regional) agenda:** Efforts should increasingly focus on integrating development cooperation actions within a comprehensive framework of the international public goods agenda, notably the fight against climate change, the protection of biodiversity and the prevention of pandemics, while simultaneously addressing the distributive asymmetries that exist on a global scale. Such support should be additional to that for supporting the development of low-income and vulnerable countries.

B. ODA: Strengthen international aid commitments and accountability.

Donor accountability and enforcement of ODA commitments must improve. Repeated failures by developed countries to meet their promises have undermined the credibility of the aid system and international confidence in donors in international fora. In recent years, part of the resources dedicated to development objectives of low-income countries have been shifted to meet the humanitarian needs arising from conflicts or to attend to the refugee population in donor countries. To meet the historical targets and build trust, donors should adopt realistic pathways to increase development-oriented aid and commit to being held accountable at the international level. The objective should be to reach, within a reasonable period of time, an ODA level of 0.7 per cent of GNI as a DAC average. To this end, key actions should include:

a. **Institutionalize commitments:** Donors should embed the 0.7 per cent ODA target into national law or binding strategic frameworks (as is already the case for some donors). Similarly, the target of 0.2 per cent of GNI for aid to LDCs should be met but also increased. In both cases, ODA should involve greater in-country expenditure and adopt a broader focus.

b. **Establish timelines:** Credible, time-bound plans to reach the 0.7 per cent target in the shortest possible time should be developed by donors.

c. **Monitor and report:** A consortium of international institutions, including the OECD (DAC), the Development Cooperation Forum and potentially the International Forum on Total Official Support for Sustainable Development (TOSSD) should monitor progress annually. Countries should respond to these reports and justify any failure to meet commitments.

C. Support South-South and triangular cooperation

The growth of cooperation providers from the Global South has enriched and democratized the development cooperation system. Yet, even with the deficiencies in the recording of funds, the ODA-equivalent resources channelled by non-DAC countries have not shown significant growth. According to underreported OECD data, these providers channelled $11.5 billion in 2015, rising to $17.8 billion in 2022.

Beyond funding volumes, South-South cooperation offers a means of democratization and enrichment of the cooperation system as well

as important values of horizontality and proximity to development efforts. The active involvement of Global South providers in this field strengthens the technical and institutional capacities of the countries involved and is a way to build a richer and more pluralistic cooperation system. To support these efforts the following should be implemented:

a. **Northern support:** Donors from the Global North should allocate a portion of their resources and capacities to support South-South cooperation initiatives through triangular cooperation.

b. **Support through multilateral institutions:** Donors should also provide support to multilateral institutions with programmes aimed at enhancing South-South cooperation, both at the global level (such as the United Nations Office for South-South Cooperation) and the regional level (for example, the Latin American and Caribbean Economic System (SELA), the Ibero-American General Secretariat (SEGIB) or the African Union).

c. **Foster dialogue:** A constructive dialogue with Global South providers should aim to establish shared cooperation standards, with the Development Cooperation Forum and the Global Partnership serving as key platforms for these discussions.

d. **Improve the reporting and monitoring impact:** South-South cooperation providers should improve the reporting and impact evaluation of their operations. An important step for doing that in a comparable way is the United Nations Concept Framework to Measure South-South Cooperation, promoted by UNCTAD.

D. Maximize the impact of (scarce) concessional finance

The demand for concessional finance is growing, driven by diverse needs and a rising number of eligible countries. Concessional finance should prioritize support to low-income countries with limited capital market access, addressing debt sustainability concerns and unlocking private sector investments that are aligned with development outcomes. Additionally, it should encourage middle-income countries to contribute to financing international public goods.

As concessional finance envelopes are unlikely to expand in the next few years, MDBs and development finance institutions must adopt principles to allocate these funds effectively across competing priorities, with a focus on the quality of concessional finance rather than just the quantity. A dedicated workstream is needed to analyse the best practices and identify solutions to maximize the impact of concessional finance across multiple objectives and institutions. The quality of development finance from these institutions should meet the following dimensions:

a. **Terms of financing:** Promote patient and risk-tolerant concessional finance, offering long-term modalities with long-terms loans (30 to 50 years), long grace periods (10 to 15 years), below-market interest rates and grant financing. MDBs already have these tools, but the challenge lies in maintaining high levels of concessionality while expanding volumes. Safeguarding grant financing requires continued contributions from wealthier nations, as grants are critical in high-risk environments.

b. **Directionality and impact:** Ensure that blended finance initiatives align with public objectives and support projects in regions and sectors where private capital is scarce.

E. Reform current approaches to financing social policy and social development

The COVID-19 pandemic and the current debt crisis have highlighted the need for a greater focus on financing social development, which is critical for achieving the SDGs and fostering social cohesion. Despite its catalytic role, social development has received less attention than other SDG pillars, with current approaches often narrowly focused on social protection and a heavy reliance on the

private sector in some countries. To strengthen social policy financing and its impact, urgent actions include:

a. **Prioritizing social policies:** Recognize the role of robust and expansive social policies in achieving all SDG goals. Economic and social policy reforms must protect social spending during crises.

b. **State and non-profit financing:** Promote a more proactive role for the State and non-profit sectors, supported by multilateral institutions, in financing social development.

c. **Reassessing instruments:** Conduct rigorous assessments of social policy instruments and appropriate regulation of private activity in social sectors.

F. Strengthen the international humanitarian system

In an increasingly unstable world, humanitarian crises have become a recurrent phenomenon as a result of armed conflicts, environmental disasters, health emergencies, economic shocks and forced migration. Development policy must address these challenges by improving risk management and integrating the development, climate, peace and humanitarian action agendas. To strengthen the humanitarian system, urgent actions include:

a. **Capacity-building:** Strengthen humanitarian action as a key pillar of international governance with sufficient resources and operational agility for crisis response.

b. **Complementing development goals:** Ensure humanitarian resources complement those allocated for development.

c. **Bolstering global funding:** Strengthen the Central Emergency Response Fund, transforming it into a reliable mechanism with adequate and secure financing for multilateral humanitarian action.

G. Revitalize the development cooperation effectiveness agenda

Despite significant efforts over the past two decades, progress on the development cooperation effectiveness agenda – country ownership, focus on results, inclusive partnerships, transparency and accountability – has stalled. Monitoring by the Global Partnership for Effective Development Cooperation has weakened, with the last published review in 2019. While transparency has improved, alignment with partner country priorities, multi-annual aid predictability and the use of public financial management systems remain inadequate. To revitalize this agenda, key actions include:

a. **Recommit to effectiveness:** Donors should prioritize multi-annual aid programming, enhance predictability and use aid instruments that align with partners' public management procedures, supported by mutual monitoring and accountability frameworks.

b. **Strengthen data quality:** Improve the quality of aid effectiveness data, addressing gaps and challenges in measuring the principles of development effectiveness. At the same time, multilateral and bilateral development cooperation providers should shift from output-focused metrics to an impact-oriented approach.

c. **Rethink effectiveness:** Promote a deeper analysis of what drives effective development cooperation, building a stronger evidence base and improving measurement and development effectiveness over time.

H. Reduce fragmentation and maximize the leverage of donor contributions

The increasing fragmentation of development cooperation, driven by a doubling of official finance providers and a rise in ODA-eligible multilateral entities, has added complexity to the system. While this expansion can boost overall funding, and a larger pool of official financiers

enhances countries' bargaining power, it also raises coordination costs and strains government systems, especially when additional funders do not lead to significantly increased funding. To reduce fragmentation and maximize donor impact:

a. **Promote country platforms:** Establish country-led, mission-driven platforms with bilateral and multilateral technical and financial support.

b. **Encourage co-financing:** Prioritize co-financing arrangements and mutual recognition of standards among official financiers and harmonize standards.

c. **Leverage contributions:** Increase contributions to funds/agencies that amplify financing from donor resources, such as IDA, with capital market borrowing, loan reflows and net income.

V. Environmentally sustainable finance

A. Integrate climate and biodiversity with the development agenda

Relying on goodwill and polite discussions is no longer sufficient to combat climate change and protect biodiversity. The scale of the challenge demands substantial private-sector engagements that extend beyond philanthropy to genuine sustainable investment. Yet, expecting investors to reduce their carbon-intensive and biodiversity-destructive portfolios without external pressure is unrealistic, thus making regulatory changes imperative. These changes should not just encourage but incentivize scale-up and speed up the necessary shift towards carbon-neutral investments. This shift requires us to also cast aside the artificial divide between climate and biodiversity with development priorities. Environmental finance should be considered an integral part of development financing.

Given the significant amount of resources needed to combat climate change, we concentrate on this objective below. In this regard, accessible, liquid and diversified investment vehicles are needed to engage a broad range of investors and align long-term financial strategies with the global climate goals. In this area, the financial system prioritizes mitigation efforts over adaptation needs, leaving vulnerable countries reliant on limited concessional lending and ODA for the second objective. Addressing this imbalance is critical to ensure equitable and effective climate action.

B. Simplify and strengthen the climate finance ecosystem

The climate agenda is deeply interconnected to the development agenda, and environmental financing should therefore be considered an integral part of development financing. Persistent poverty prevents progress on climate, but lack of progress in this area increases the vulnerability of the world's poorest populations. However, governments often fail to recognize this complementarity, treating these agendas as alternatives. This misalignment has led to climate funds using existing development resources rather than being allocated new – supplemental – funding. Moreover, the proliferation of climate funds without a corresponding increase in available resources has created a confusing landscape of funds, increasing transaction costs. Development cooperation must bridge these gaps by providing additional bilateral and multilateral donor resources to reinforce progress on climate goals. In this context, we propose the following:

a. **Enhance public climate finance:** Increase the quantity and quality of public climate finance, particularly from wealthier countries with higher historical greenhouse gas emissions. Prioritize affordable, long-term finance, including concessional loans and grants, and earmark resources for direct recipient public budgets to support public green goods.

b. **Equitable commitments:** Climate finance agreements should follow the principle of common but differentiated responsibilities, tailoring commitments to countries' capacities and roles.

c. **Balanced allocation of resources for mitigation and adaptation:** The imbalance between mitigation and adaptation funding should be corrected, with greater support for adaptation and quick and generous contributions to the Loss and Damage Fund.

d. **Complementary funding:** Climate finance must complement, not substitute, international aid resources aimed at reducing poverty and inequality.

e. **Streamlined frameworks:** Simplify the complex institutional landscape of climate finance to improve efficiency and reduce transaction costs.

f. **Clearer reporting:** Establish criteria for accurately reporting resources allocated to adaptation, ensuring complementarity with ODA commitments.

C. Address structural imbalances in climate finance

Countries with adaptation needs face significant barriers to accessing limited resources. Power imbalances, outdated regulatory systems and risk evaluations by investors perpetuate the perception that sustainable development initiatives are inherently riskier, diverting attention and funding activities that are deemed "safer". This entrenches the status quo and hinders meaningful progress on climate and environmental goals. Reliance on voluntary pledges has proven inadequate for addressing both development and climate challenges. Concrete actions are essential to drive meaningful change:

a. **Global financial architecture reforms:** Reshape international financial institutions to address systemic power imbalances and provide equitable access to financing for climate adaptation and mitigation efforts, and for the loss and damage effects of climate change.

b. **Shift investor perceptions:** Challenge traditional risk assessment to de-risk sustainable investments and align capital to climate initiatives. Credit rating agencies should integrate sustainability into their ratings, as such ratings influence investment decisions.

c. **Address structural imbalances:** Ensure fair access to adaptation funding, tackle unethical practices in carbon markets, and promote a more equitable distribution of financial resources to build a more inclusive and sustainable financial system.

D. Mobilize private finance for climate transition

Mobilizing private finance is often seen as a practical solution to climate financing, given the perceived challenges in increasing public budget commitments to climate goals. The key strategy, de-risking, involves using public resources to subsidize upfront private returns, improving the risk-return profile of green or developmental projects to make them investible. De-risking instruments in this area include blended finance, co-investments, loan guarantees, tax credits, and guarantees in public partnerships or power purchase agreements. These mechanisms are often housed within climate funds or NDBs, but public subsidies for privately operated green projects raise fiscal, distributional and developmental implications. Proposals in this regard include:

a. **Measuring, monitoring and aligning development outcomes:** Shift the focus from the quantity of private finance mobilized to its developmental impact. Foster a common taxonomy for de-risking to evaluate how private ownership of green projects affects developmental outcomes, and develop mechanisms to ensure continuous alignment, including through conditionality.

b. **Fair public-private partnerships:** Ensure public-private partnerships share the benefits of de-risked investments between governments and private partners, rather than only privatizing profits while socializing risks.

c. **Fiscally responsible de-risking:** Establish criteria for fiscally responsible de-risking. Increase transparency in de-risking costs, including legal and consultancy fees. Establish ceilings on contingent liabilities to prevent long-term fiscal risks, particularly in low- and middle-income countries, and de-risk debt rules similar to public debt rules.

d. **Developmental carve-outs:** Ringfence green social infrastructure from de-risked private ownership to ensure universal access.

E. Strengthen rules on domestic resource mobilization

Integrating the climate and development agendas requires creating incentives for sustainable investment, including tax benefits, accessible climate investment vehicles, financial regulation reforms and appropriate policies for central banks' bond portfolios. This paradigm shift requires a holistic approach, including the following key elements:

a. **Integrate the climate and development agendas:** As already underscored, environmental finance should be considered an integral part of development financing. This recognizes that climate change is a primary obstacle to development but also that clean financing provides new opportunities for development.

b. **Incentivize sustainable investments:** Policies should reward sustainability and penalize carbon-intensive activities to accelerate the transition to carbon-neutral investments. This shift will steer investment flows towards environmentally friendly options and scale up sustainable practices.

c. **Create accessible investment vehicles:** Developing liquid and profitable climate investment vehicles is vital to mobilize private capital for climate action. These investment vehicles should align with climate goals while offering attractive returns, ensuring widespread participation from institutional and retail investors.

d. **Adopt a double materiality approach to align financial regulations with the Paris goals:** Double materiality orients financial regulation towards capturing both the impact of climate risks on financial institutions' portfolios and the impact of lending decisions on the climate and biodiversity. As indicated in section VI below, this requires changes in financial regulations.

e. **Adopt appropriate policies for central banks' bond portfolios:** Central bank bond portfolios in some countries often reinforce carbon bias by replicating corporate practices that exclude climate and other environmental considerations. Central banks' bond portfolios should thus exclude investments in activities and firms that generate adverse environmental effects.

VI. Trade, industrialization and investment issues

A. Crucial World Trade Organization (WTO) issues

Four crucial elements are essential to strengthen trade and the WTO:

a. **Agreement on industrial policies:** The WTO should work towards recognizing the role that different types of industrial policy tools – including subsidies for some activities– can play in the functioning

of international trade. In this regard, the WTO should follow the principle of special and differentiated treatment, enabling developing countries to have the policy space for effective industrial policy.

b. **Upholding tariff commitments:** To avoid national decisions that violate the WTO deals, an agreement must be established to uphold existing commitments on tariffs.

c. **Restoring the WTO dispute settlement system** by appointing the appellate judges.

d. **Exceptions to intellectual property rights:** The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) should include an automatic waiver of all disease-related intellectual property rights (IPRs) in the event the World Health Organization (WHO) declares an epidemic or pandemic and, as pointed out below, waivers of IPRs for technologies that support climate change adaptation and mitigation and the protection of biodiversity. In both cases, rules should be adopted that stop companies from challenging compulsory licensing.

e. **Global cooperation to establish fair and inclusive policies that reflect the growing role of data in the world economy:** Data has emerged as a new form of value-creation that escapes current trade and intellectual property frameworks due to its intangible nature. Unlike traditional goods, data fluidity complicates regulation and protection under existing IPR rules. As countries and corporations vie for control over data, the lack of clear international standards raises issues of equity, privacy and sovereignty. Developing nations, in particular, face challenges in capturing value from data without standardized governance frameworks.

f. **Launching a new development round:** With the collapse of the Doha Round initiated in 2001, the WTO regime has shown that it is not up to the task of promoting development. A new round should therefore be launched.

B. Fairer commodity markets for developing countries

Collaborative efforts involving governments, regulators, industry stakeholders and civil society are essential to foster fair, transparent and resilient commodity markets that benefit all participants and contribute positively to global economic stability and sustainability. This requires actions in several areas:

a. **Create buffer stocks:** Buffer stocks to cushion sharp commodity price fluctuations could include international virtual or physical buffer stocks for important commodities – at the national, regional and possibly multilateral level – particularly for important food products, benefiting both producers and consumers.

b. **Create stabilization funds in developing countries:** Stabilization funds to support producers in the countries of origin of those goods would be an important complement.

c. **Bring all transactions in the commodity futures markets into regulated exchanges,** with the strict imposition of capital requirements, margin requirements and position limits of individual agents.

d. **Eliminate the "swap-dealer loophole" that persists, allowing financial players to enter as supposedly commercial players:** This would mean that only players with a direct interest in the physical commodity can participate. For example, a purely financial institution (a bank or hedge fund) would not be allowed to participate in the futures markets for, say, wheat or rice, in which they have no direct interest.

e. **A government-administered virtual reserve mechanism,** with the possibility of governments' direct intervention in the physical and financial markets, could also be effective. This would require smaller physical reserves (possibly held in decentralized locations) complemented by a financial fund used for intervention in futures markets against price spikes/dips.

f. **Consideration of a global reserve,** along the lines of commodity boards and international commodity agreements that in the past were used to prevent price volatility. This could take the form of intervention in the futures market through an international public agency, housed in a UN agency such as the Food and Agriculture Organization (FAO), using the physical reserves of constituent national members. As in currency markets, such intervention in financialized commodity markets could even help market participants recognize the (real) fundamentals that would prevail over short-term, speculation-driven movements.

C. Support green investment in developing countries

It is essential to promote green trade, investment, technology and finance agreements centring around climate and biodiversity. This should include partnering between developed and developing countries in designing green technologies, including through a network of international research centres, and improved forest management, with better support for tropical forest preservation. It should also include provision of long-term finance and investment, with the opening of trade in developed countries to these "green" partners. This requires:

a. **Assistance on carbon pricing:** major assistance to developing countries and emerging markets in the implementation of carbon pricing and regulation schemes, and recognition of regulation and public investments as an alternative.

b. **A waiver of intellectual property rights:** a waiver of all climate- and biodiversity-related IPRs, with any royalties and licensing fees to be paid by developed countries (perhaps through revenues raised through carbon taxes).

c. **Support for financing green investment in developing countries:** subsidies and/or risk absorption mechanisms for investments in developing countries in climate to enable developing countries to have access to funds for investment in solar (where there is little social risk) at rates comparable to those in advanced countries. Similarly, support should be provided for financing – both public and private – the preservation of biodiversity and the conservation of natural forests. In both cases, resources could be partially financed by green tariffs imposed against non-cooperative advanced countries and be subject to the governance frameworks outlined in this report.

D. Industrialization, innovation and technological change

Promoting structural transformation in developing countries requires targeted efforts to address financing gaps, support industrial policies and enhance innovation and technological change. Key proposals include:

a. **Autonomy for industrial policy:** Develop fiscal and policy autonomy in developing countries to enable industrial policies at scale, supported by development finance institutions. This includes concessional financing, targeted subsidies and incentives to support strategic sectors and marginalized groups. These policies should be aligned with competitive exchange rates, moderate interest rates and growth-oriented fiscal strategies that are consistent with macroeconomic stability. To the extent that advanced countries undertake industrial policies, additional assistance, both financial and technical, needs to be provided to developing countries.

b. **Support industrial upgrading in a sustainable and resilient manner:** Provide financing to strengthen productive capacities and foster industries that promote structural transformation, where governments can play a facilitating role in turning latent comparative advantages into actual comparative advantages and incubating future growth poles. Leverage industrial policies to build resilience and drive sustainable economic growth.

c. **Finance innovation ecosystems:** Expand financial support for companies to undertake research and development, technology acquisition and skills development. Increase public investment in digital and physical infrastructure.

d. **Increase the participation of developing countries in commodity value chains:** Increase the participation of developing countries in the markets for the manufactured goods that process the commodities they export, thereby ensuring a more substantial share for them in the relevant value chains. This requires a system of import tariffs in the consumer countries where the processed goods are taxed at a similar rate to that of the primary commodities, which would encourage processing activities to take place in producing countries. Furthermore, there should be financing mechanisms to promote the participation of firms from producing countries in the marketing and manufacturing of goods in consumer countries.

e. **Promote digital trade finance:** This requires establishing global standards for interoperability and investing in digital infrastructure to reduce costs and improve efficiency.

f. **Reform intellectual property rights:** As indicated above, IPRs should be reformed to facilitate technology transfer for green transitions and public goods such as health and food security.

E. Redesign the international investment agreements

Investment agreements were originally justified as protection against expropriation and as necessary to promote inflows of investment. Expropriation has not been a problem, and the World Bank and many governments provide insurance against expropriation. At the same time, there is no evidence that such rules have any positive effect on investment. In practice, they have become a vehicle to restrict regulation and taxation, generating large negative flows from developing to developed countries. They are now recognized as an impediment to climate action, and the mechanism for adjudicating disputes, the Investor-State Dispute Settlement (ISDS) mechanism, is now seen as badly flawed and not up to modern judicial standards, including with regard to transparency and the lack of rules on conflicts of interest. Action in this area requires:

a. **Design a new global investment agreement:** A global agreement is needed to terminate or fundamentally restructure existing investment agreements and make awards under ISDS not enforceable when they involve social or environmental regulations adopted by the countries where investments are made.

b. **Design new model agreements:** At the same time, the United Nations should work to develop model agreements that recognize responsibilities as well as rights, incorporate better dispute resolution mechanisms (an international court), and have greater flexibility in response to changing circumstances.

VII. Sovereign debt restructuring

A. Improving the debt restructuring mechanism

Since the mid-2010s, a series of negative shocks – the end of the commodity cycle, the COVID-19 pandemic, a wave of world inflation and high interest rates, and a sudden stop of international private capital flows – have combined to foment a debt crisis in a large number of developing countries, especially poorer ones. Solvent countries

are also facing the effects of larger debt service payments. The global financial architecture – including a significant increase in financing by international financial institutions and the existing debt reduction mechanism for low-income countries – has proven to be incapable of resolving current tensions. Under these conditions, the instrument available for debt restructuring for insolvent countries launched by the G20 is the Common Framework for Debt Restructuring. However, it is essential that this scheme is improved sufficiently to meet six criteria:

a. **Renegotiations should be faster, and debt payments should be suspended during negotiations:** The latter point means that the negotiations should usher in a standstill mechanism that lasts until a new and sustainable debt service path is agreed upon.

b. **Renegotiations should guarantee the sustainability of debt:** To guarantee debt sustainability, the renegotiations should include debt reductions that are deep enough to allow the country to borrow anew, while making debt service low enough to allow for a sustainable working of fiscal policy.

c. **Renegotiations should include all external long-term debts except those with international financial institutions, which should continue to have seniority:** Clear processes and precise rules should be established to guarantee that all external long-term debts are renegotiated, and to ensure the participation of all creditor countries and private creditors.

d. **Priority rules should be set forth that favour lenders who have provided financing during a crisis and concessional finance providers.**

e. **Value recovery clauses, when used, should be symmetric:** This means that they should not only afford larger payments in well-performing States, but also reduced payments in underperforming States.

f. **Eligibility for the Common Framework should be expanded to middle-income countries.**

B. Dealing with solvent but illiquid countries

Although the global macroeconomic situation has improved, global interest rates might remain high for a few years, and global liquidity will also continue to be tight. More importantly, risk ratings for developing countries have deteriorated significantly in recent years, which means that risk margins and thus borrowing costs could remain high for many countries. Additional reforms of the debt resolution mechanism are required to support solvent countries for which debt service is high because they face repayment walls while being temporarily cut off from the international capital market, as well as supporting countries following implementation of a successful debt restructuring. This involves support from MDBs and official bilateral creditors to fund ambitious recovery programmes. In particular:

a. **Expanded support is needed from MDBs through multi-year support programmes (say five years):** The presumption is that a country can grow out of a debt problem if it is provided with sufficient resources, which it uses for pro-sustainable growth policies while adopting supportive reforms. Such an effort needs to be anchored in a national renewal programme that incorporates measures to adopt a new growth path that is socially and environmentally sustainable.

b. **The participation of private creditors is essential:** These programmes should ensure the participation of private creditors. Such participation could be encouraged by parallel support from MDBs because it improves the credibility of higher growth rates through sound national programmes and higher levels of resources for debt service payments.

c. **Participation by official bilateral creditors is also essential,** in particular that of Paris

Club creditors and China. Such creditors are more likely to support these processes if there is a comparable burden sharing with private lenders.

d. **Changes in IMF practices:** This means no bailouts for private sector creditors, forcing the private sector to reduce interest rates in sustainable refinancing, and not allowing IMF financing to offset private sector outflows. This requires that IMF-supported programmes to "grey countries" rely less on austerity and more on growth measures and require sufficient relief from other creditors to fully finance the programmes.

e. **Holding of country bonds by the IMF and central banks:** It may be convenient for the IMF to hold country bonds to signal its belief that its programme effectively lowers the risks of these bonds. Creditor country central banks can also provide such signals by holding debtor country bonds.

f. **Larger use of green bonds and debt-for-nature swaps:** Given the large needs associated with financing mitigation and climate change adaptation as well as the biodiversity issues faced by many developing countries, a more active use of green bonds and debt-for-nature swaps should be encouraged, although these should avoid high costs for the public sectors and very high benefits for private investors.

C. Complementary mechanisms

There are other desirable changes and reforms that would enhance debt restructuring.

a. **Changes in the debt legislation in major jurisdictions:** To encourage an appropriate participation of private creditors in debt restructuring, changes in legislation for sovereign debt in the major jurisdictions for sovereign bond issuances – in particular New York and London – that affect the incentives of bondholders to cooperate is fundamental. Such reforms need to include several elements, particularly comparability of treatment: private sector creditors should not receive more favourable treatment than public sector bodies.

b. **Better debt sustainability assessments:** The aim would be to distinguish short-term debts from those for long-term investments, and better prediction of the impact of the latter on future debt service capacity using proper multiplier effects that take into account investment rates, discount rates that reflect the risk associated with a sustainable programme, and the effect of exchange rate expectations on external versus domestic debts.

c. **Treatment of domestic debt:** There should be no presumption that domestic and external debt are treated identically in restructuring negotiations, given the implications of domestic debt write-downs for the financial and pension systems and, in the first case, the effects on the provision of credit to firms and households. If domestic debt is subject to a restructuring process, the process should follow the rules established by national legal systems.

d. **Guarantee the quality of the information on debt:** Given the significant opacity regarding some sovereign creditors, especially private creditors, it is essential to improve the transparency and quality of debt-related information. This would be guaranteed by the creation of a global debt registry, which should include all types of debt with the private sector and different public entities and governments. This mechanism is essential to give transparency to any debt restructuring mechanism.

e. **Regulation of credit rating agencies:** An additional element in the agenda must be the creation of regulation for credit rating agencies. The regulation should include information about what factors are included in the risk evaluations and what are the standards by which these institutions classify the MDBs, countries

and firms in different risk categories. Their ratings should be based on long-term financial risks, thus eliminating the procyclical bias in ratings, which tend to accentuate economic crises. The regulation could be in the hands of the International Organization of Securities Commissions (IOSCO), and the IMF should regularly evaluate whether those standards are being met. These evaluations should include an analysis of whether risk perceptions and associated credit ratings are fairly applied to all countries and in particular do not overestimate the risks faced by low-income countries, especially in sub-Saharan Africa. It may also be convenient for the United Nations system to assist in the development of an independent, international public credit rating agency.

f. **Exploring the creation of a permanent institutional mechanism to restructure sovereign debts:** Officials could also explore the creation of such an institution, which could operate within the United Nations or the IMF with the proviso that, in the latter case, the associated decisions would be independent of the IMF Executive Board and Board of Governors.

g. **Revising methodologies used to design fiscal rules:** Fiscal rules should be redesigned to promote countercyclicality and have a long-term time horizon that also enables investments in environmental sustainability.

h. **More broadly, new approaches should be explored to establish more precise measurements of country risk.**

VIII. Strengthening the global safety net

A. Increase IMF resources

The argument for augmenting the IMF's resources is well known. Quota resources have fallen dramatically relative to global external financial assets. This remains true even when considering both the IMF's own and borrowed resources. There is a strong argument for increasing quota resources annually to first restore their historical relationship to global external assets and second to keep pace with the growth of global financial markets. Shares should also be realigned, taking into account variations in the relative size of the economies of the member countries.

B. Strengthen the global safety net with reserve pooling and swap arrangements

There exists no integrated, holistically designed global financial safety net, defined as a set of institutions and mechanisms that provide financial insurance for countries to lessen the impact of economic and financial crises. The question is whether more resources are needed, and whether reorganization and coordination of the different arrangements could make existing resources go further. Central bank reserves constitute most of the resources – about 75 per cent of the total. The advantage of these reserves is that they are under the control of the central banks and governments holding them. Their disadvantages are that they are expensive, as their returns are very low, and they are distributed unevenly, with very low shares held by low-income and vulnerable emerging markets. To strengthen the global safety net, several alternatives are available:

a. **Develop a multilateral IMF swap facility:** To ensure that all countries have the necessary access to foreign currencies during global crises, the IMF should develop a multilateral swap facility together with major central banks to achieve greater global scale and overcome the selectivity and fragmentation posed by today's bilateral swap arrangements. The criteria for drawing from the swap facility

should be pre-agreed with the Executive Board, allowing greater automaticity in the case of extreme shocks, with minimal or no conditionality in cases of global and climate shocks. Furthermore, interest rates and swaps should be transparent and not excessive.

b. **Reserve-pooling arrangements:** If reserves are pooled across groups of countries, they can be lent by countries with excesses to countries with shortfalls, reducing the global reserves needed to finance the same safety net, as a type of mutual insurance. Pooled reserves can be used to augment the reserves of low-income and vulnerable emerging market countries most in need and least able to accumulate reserves on their own.

c. **Swap credit lines:** The most straightforward way of pooling reserves is through central bank swap lines, which can be permanent or temporary. Currency swaps are designed to be riskless, as the foreign central bank draws on its swap line selling a matching amount of its currency to the central bank extending the swap and commits to buying back its currency at a specified future date at the same exchange rate. There is of course the danger that the central bank drawing on its swap line could default on this obligation. This explains in part why some central banks, such as the United States Federal Reserve and the European Central Bank, extend swap lines only to countries with strong financial positions or to central banks of countries with which they are geopolitically aligned.

d. **Limit expensive and frequent use of swap lines:** Countries should avoid the frequent use of swap facilities as they are aimed at managing liquidity and not solvency problems.

e. **Swap lines from new countries:** Given the limited access to existing arrangements, additional central banks should extend swaps to prospective partners. Switzerland, India, Saudi Arabia, the Republic of Korea and Brazil are all in the top ten list of countries by value of foreign exchange reserves.

C. Improve IMF facilities

The IMF's Stand-by Arrangements are sometimes ill-suited to liquidity crises, as extending them requires lengthy negotiations whereas liquidity crises are fast-moving. Acknowledging this fact, some Stand-by Arrangements can be accessed rapidly under the Emergency Financing Mechanism. The IMF has also developed contingent lines that make resources available for countries which can decide when to use them. They include the Flexible Credit Line (FCL), the Short-term Liquidity Line (SLL) and the Precautionary and Liquidity Line (PLL). These do not have ex post conditionality; however, only countries with strong fundamentals have access to them.

In addition, the IMF has created a Rapid Credit Facility (RCF) and Rapid Financing Instrument (RFI) to provide emergency assistance to low-income countries. These may be tapped by countries whose debt is judged sustainable – or on track to be sustainable— and who are pursuing broadly appropriate policies but have urgent balance-of-payments needs. These facilities are not targeted at liquidity crises per se; rather they are available to low-income countries to meet exogenous shocks such as COVID-19 that create balance-of-payments needs. These and other credit lines should be expanded and improved, to overcome several limitations:

a. **Improve the new credit lines:** Given the relatively limited use of the FCL, SLL and PLL, countries with strong policies could be unilaterally pre-qualified for these credit lines. Furthermore, since these countries have strong fundamentals, interest costs on these facilities could be further reduced, making it more appealing to draw on them.

b. **Expand credit lines for low-income countries:** Credit lines for low-income countries should be expanded, most urgently the RCF and the RFI.

c. **Continue to reduce the costs of expensive credit lines:** Following the October 2024 decision to reduce the high costs of some credit lines, the charges and surcharges affecting the major lending operations of the IMF through the General Resources Account as well as under the Poverty Reduction and Growth Trust should continue to be reduced.

d. **Reform conditionality:** It is important to ensure that conditionality remains strictly macroeconomic and that social spending in the adjustment programmes should continue to be protected.

D. Manage the international impacts of the macroeconomic policies of major economies

The macroeconomic policies of developed countries (particularly but not only the United States) and large developing countries (specifically China), including their monetary and fiscal policies and their trade policies and associated imbalances, have important spillover effects on developing countries. These effects are not sufficiently considered when these policies are adopted, as those countries' economic authorities focus only on their domestic impact.

A clear example is the spillover effects of United States monetary policy. When the United States tightens monetary policy to combat domestic inflation, this has important spillover effects on several developing countries. Those that have relatively controlled inflation or low inflation may wish to lower their domestic interest rates to stimulate economic growth, investment and employment. However, the ability of those countries to do so is constrained by the fact that if, as a result of lowering their interest rates, the differential with those of the United States grows, this can encourage outflows or smaller inflows of short-term capital. In turn, changes in the levels and direction of short-term capital flows can have effects on key macroeconomic variables such as the exchange rate. A significant depreciation of the country's currency can then increase inflationary pressures and increase debt ratios, potentially enhancing financial volatility and risks.

The policies of major countries like China may also have significant effects on many developing countries, particularly as its rate of growth affects the level of commodity prices and thus the value of their exports. Chinese policies that imply large trade surpluses with some countries also have spillover effects on the rest of the world.

It would therefore be desirable to take action in several areas:

a. **Bring spillover effects to the IMF agenda:** The IMF should deepen its monitoring of the monetary and fiscal policies of the United States and other major economies and the trade policies of large countries in order to analyse their spillover effects on the rest of the world. Such evaluations could be an important element in Article IV consultations with those major economies, as well as the broader dialogue between the economic authorities of these countries and the IMF.

b. **Broaden the use of capital account management techniques:** Furthermore, as analysed below, the financial cycles generated by the macroeconomic policies of developed countries should lead to broader usage of capital account management techniques by developing countries.

c. **Review the effects of Basel III on poor countries:** Special attention should be paid to the impact that Basel III regulations, such as increased capital requirements, could have in restricting access to critical financing by developing countries – particularly low-income countries, especially in sub-Saharan Africa – which could undermine their growth prospects.

E. Adopt strong instruments to manage the volatility of private capital flows for emerging and developing economies (EMDEs)

A major problem in EMDEs is the procyclical pattern of international private capital flows: booming periods with large-scale financing and lower risk margins followed by periods of limited or no access to financing and higher risk margins. Short-term capital flows play an essential role in these dynamics, but unlike foreign direct investment they have no positive development impact; on the contrary, they create volatility in macroeconomic variables and limit the ability of EMDEs to conduct their monetary policy focused on their domestic objectives. This volatility should be managed with countercyclical instruments. The IMF can play a significant role in several ways:

a. **Supporting the use of capital account management techniques:** A major implication of this volatility is that the IMF should develop an enabling system for developing countries to implement capital account management techniques, including not just macroprudential policies but other more direct regulatory measures that can prevent or discourage excessive short-term capital flows. Following the experience of some countries, measures could include a tax or a reserve requirement on short-term capital flows and their corresponding derivatives.

b. **Good management of financial booms should be central to IMF advice:** During periods of booming capital inflows, Article IV consultations with IMF member countries should emphasize the analysis of short-term capital flows to avoid over-indebtedness or excessive carry-trade positioning.

c. **Temporarily intervening in the international bond markets of EMDEs:** An Emerging Market Fund, a new IMF instrument for international liquidity provision for EMDEs, should be created. The Emerging Market Fund would aim to mitigate the effects of systemic liquidity crises by temporarily purchasing the sovereign bonds of EMDEs in secondary markets, particularly when there is evidence of financial contagion. This mechanism would mirror those used by the United States Federal Reserve and the European Central Bank during recent systemic liquidity crises. Like those central banks, the Emerging Market Fund would have the authority to decide when and how to intervene, as well as the basket or countries subject to its intervention.

F. Strengthen the system of SDRs

The SDRs issued by the IMF are one of the most underutilized instruments of global financing. Out of the equivalent of $940 billion that has been allocated to member countries, existing drawings on these resources are very small. They therefore constitute an important source of financing for new global programmes. They can also be an interesting global countercyclical instrument, as reflected in the 1980, 2009 and 2021 allocations. Although low- and middle-income countries receive only a small share in the allocations – 31 per cent in the 2021 allocation – for them it constitutes an important source of international reserves. This instrument should thus be more actively used:

a. **Allocations should be much higher:** at least $200 billion a year and even up to $400 billion. It would be advisable, in any case, for them to continue to have a countercyclical nature and thus be issued in larger amounts during liquidity crises. They should also be proportional in the long term to the demand for international reserves.

b. **Eliminate the IMF's dual accounting:** For more active use, the main reform that could be adopted is to eliminate the IMF's dual accounting, which currently separates SDRs from the IMF's current operations. Once this duality is eliminated, the unused SDRs would be considered as member country deposits and used as resources available for IMF credit operations.

c. **Channel more SDRs to MDBs:** Eliminating dual accounting should be complemented by channelling more SDRs to MDBs in order to expand the supply of credit to developing countries, including financing to manage environmental challenges.

d. **Change allocation criteria:** Include an additional criterion to the existing quota system used for SDR allocation. This could be based on support for developing economies and in particular low-income countries, or on their demand for international reserves, ensuring that countries with greater needs receive more substantial support. Contributions of developing countries to regional reserve funds could be one of the criteria for the allocations, thus encouraging the establishment and strengthening of such funds.

e. **Protect the SDRs as reserve assets:** Guarantee that if SDRs are not in the hands of the countries receiving them, they are entirely liquid to preserve their role as reserve assets. The experience of IMF funds that already have such mechanisms should thus be used by MDBs or other funds that use SDR deposits as a financing instrument.

G. Expand regional monetary arrangements

Regional financing arrangements are agreements and mechanisms whereby groups of countries pledge mutual financial support to other countries experiencing financial difficulties in their regions. They include the European Stability Mechanism as well as mechanisms that developing countries participate in: the Latin American Reserve Fund (FLAR), the Arab Monetary Fund, the Chiang Mai Initiative Multilateralization (CMIM) and the BRICS Contingent Reserve Arrangement. There are two basic rationales for them. First, liquidity crises may have a greater tendency to spread contagiously within regions than across them. Second, liquidity lines require assurances that what is lent is paid back (as we saw above in the case of bilateral swap lines). In this context the likelihood of repayment is higher in the case of regional partners, either because proximity is associated with close contact and good relations, or because the costs of default are higher, since countries in close proximity typically engage in relatively extensive trade and financial transactions. Global financial reforms should therefore:

a. **Support the creation of regional monetary funds:** Encourage the development of these arrangements, as they can act as buffers against regional economic shocks, thereby enhancing the financial resilience of developing countries.

b. **Equip these funds with surveillance capacities:** The regional monetary funds should develop surveillance capacities, enabling them to distinguish different sovereign credit risks. This has already been done for FLAR and CMIM. These arrangements might also contemplate establishing facilities from which some pre-qualified members determined by the surveillance processes could freely draw.

c. **Clarify the mechanisms of coordination with the IMF:** The modalities for coordination with the IMF should be clarified. FLAR financing is independent of IMF support. CMIM distinguishes IMF-linked and IMF-delinked portions of its resources, such that small liquidity needs can be met without direct IMF involvement, whereas large drawings are subject to the negotiation of an IMF programme. De facto, when meeting small liquidity needs, CMIM is the lead agent, whereas in the case of large drawings coordination with the IMF might be desirable.

IX. Pending issues in financial regulation

A. Enhance several areas of financial regulation

Most developing countries are adversely affected by the volatility of international financial flows. Aside from the spillover effects of macroeconomic policies undertaken by core advanced economies, which have already been analysed and require broader use of capital account management techniques and the regulation of credit rating agencies, there are additional issues in the financial regulation of NDBs, commodity markets, digital assets and an adequate definition of climate finance. To manage these issues, financial regulations should be reformed in different ways:

a. **Adoption of new regulatory frameworks for NDBs:** National regulators tend to use the Basel Accords to regulate NDBs. However, strict adherence to Basel standards can undermine the developmental role of NDBs by incentivizing behaviour similar to that of commercial banks. For example: Basel models link longer loan terms with higher risk, yet NDBs' long-term funding reduces this risk; portfolio concentration, inherent in NDBs' mission of fostering development, is penalized as riskier under Basel standards; and Basel III market and operational risks deter equity finance, crucial for innovation and climate finance, which often involves untested clean technologies. A new internationally adopted regulatory framework is important to ensure the financial soundness of NDBs while unleashing their development role.

b. **Discourage financing of high-carbon activities:** Financial regulators should realign financial and credit flows away from high-carbon activities by elaborating methodologies to calculate climate scores for issuers in line with double materiality, which can then support a framework for regulatory penalties on dirty assets.

c. **Stronger regulation of global commodity futures markets:** This is especially important for food and fuel products, avoiding loopholes.

d. **Regulate digital financial markets:** Enable and coordinate regulation of privately created digital assets (sometimes called "currencies"), especially those involving secrecy.

e. **Encourage appropriate finance for social and environmental objectives:** Consider and enable regulation to direct finance to social and planetary goals and avoid/reduce environmentally damaging investments such as those requiring multiples of "climate finance" and "development finance" for every unit of "dirty" investment.

f. **Ensure adequate and universally accepted definitions of "climate finance" and "development finance" for use in all relevant contexts:** using widely accepted definitions will help to promote a common understanding of these terms. Additionally, impose clear conditions and performance requirements on private players who receive public financial subsidies in any form (such as output requirements, price controls, profit caps and enforced dissemination of knowledge and technologies).

B. Regulatory support for greening the private financial system

It is noteworthy that since 2022, the European Central Bank has set deadlines for private banks to identify and better manage climate and environmental risks and conduct a full

assessment of their impact on bank activities. By the end of 2024, all Eurozone banks had to meet all supervisory expectations on these risks, including their full integration in their capital adequacy assessments, as well as stress testing. For banks that fail to meet these regulatory requirements, the European Central Bank may impose periodic penalty payments, which could be quite sizeable. Given the importance of larger investments in environmental sustainability, such types of regulatory principles should be expanded worldwide, in particular to discourage bank lending to high-carbon activities, thus making banks less vulnerable to climate and environmental risks while indirectly encouraging more investment in low-carbon activities. This implies the following:

a. **Regulatory biases against investment in low-carbon assets should be removed:** These regulations may affect lending with long maturities that are required for such investments. In this case, the legitimate concerns of financial regulators of avoiding excessive maturity mismatches for banks need to be balanced by the need to facilitate long-term finance for investment in low-carbon activities. If deemed desirable, financial regulators could actively encourage private finance for low-carbon activities by allowing lower provisions, but this would need to be done in ways that do not add risks to financial stability.

b. **Regulations should be developed that include the financial risks associated with high-carbon activities:** Financial regulation should take into account the increased financial risk to banks of loans made to high-carbon activities, which also have important negative externalities for climate change. For this purpose, financial regulators should discourage financial and credit flows to high-carbon activities by elaborating methodologies that calculate climate scores for issuers in line with double materiality, which could include higher provisions and/or increased capital requirements for those loans and a framework for regulatory penalties on dirty assets. This would both discourage high-carbon activities and encourage low-carbon ones, as the latter would have lower borrowing costs and possibly access to an increased volume of loans.

c. **Increased guarantees and/or co-financing of low-carbon activities:** The provision of partial national government guarantees to and/or co-financing by national and multilateral development banks to low-carbon activities may reduce risks for financial stability as well as help to catalyse private flows.

d. **Adoption of new international standards in this area:** International regulatory bodies like the Basel Committee and the Financial Stability Board should recommend such measures internationally.

X. Critical institutional issues

A. Voice and participation of developing countries in the Bretton Woods Institutions

In the context of major, institutional, international financial system reform, the priority is to continue expanding the voice and participation of developing countries in the Bretton Woods Institutions. This should involve several reforms:

a. **Adopt adequate quota/capital agreements:** It is essential to update the formulas that determine the contributions of the organizations, considering the relative size of the economies.

b. **Increase basic votes:** This should be complemented by increasing the weight of the basic votes, which are essential for

small and poor countries, bringing them to levels that were agreed upon in the original Bretton Woods agreement (about twice the current level).

c. **Use double majorities more broadly:** Use the double majority system, which would favour developing countries as they have a larger number of members.

d. **Eliminate the veto power:** Eliminate the rule that requires 85 per cent of the votes for some decisions to be approved, which is an advantage for the United States and can also be used by a small group of countries with high capital participation.

e. **Open election system of the heads of the Bretton Woods Institutions:** The Managing Director of the IMF and the President of the World Bank should be elected through processes in which citizens of any Member State can participate, thus respecting the principle of equal treatment of all member countries in their aspiration to direct international organizations, a principle that is clearly in force in organizations of the United Nations system to which both the IMF and the World Bank belong.

B. Strengthen the existing institutional architecture

To strengthen the existing institutional architecture, several reforms are needed:

a. **Create a United Nations Global Economic Coordination Council:** In line with the proposal made in 2009 by the Commission of Experts on Reforms of the International Financial and Monetary System (Stiglitz Commission), create a Global Economic Coordination Council as part of the United Nations system to help coordinate different organizations and identify existing gaps in the current cooperation system.

b. **Create a global asset registry and explore the creation of a permanent institutional mechanism to restructure sovereign debts.**

c. **Strengthen the institutional structure for international tax cooperation:** In tax cooperation, transform the UN Committee of Experts on International Cooperation in Tax Matters into an intergovernmental organ, and strengthen the United Nations Secretariat to support this Committee and work with the OECD in a complementary way.

d. **Strengthen the WTO:** In terms of trade, the world needs to re-establish the WTO dispute settlement mechanism but also stronger rules to manage the massive trade interventions that have been put in place by major countries in recent years.

e. **Develop a strong multilevel architecture,** with strong regional institutions in all areas of financial cooperation. This is essential because there is a strong potential complementarity between regional and global entities as well as competition between them, which is also healthy. Creating a broader group of regional monetary organizations and regional tax cooperation bodies should be one of the priorities of international financial reform.

C. Reform governance structures of the MDBs to maximize their development impact

In order to maximize the development impact of MDBs, it is important that their boards fulfil their role effectively, operating with a clear strategic focus and sufficient capacity to carry out monitoring and supervisory tasks, which includes setting performance criteria for management. There should also be a clear division of responsibilities, and the board should avoid acting as a political counterweight to the technical decisions and proposals of management. It is also crucial to ensure that board members who are selected have the appropriate technical skills and experience in fields related to development financing. To move towards this type of governance, it is necessary to:

a. **Define a clear division of responsibilities** between the board and management,

reserving for the former the approval of strategic options as well as the tasks of monitoring and supervising management.

b. **Professionalize the recruitment of the board of directors,** ensuring that in the nomination processes for the board, candidates proposed by government shareholders meet the required technical competencies and possess experience in the field of development.

c. **Make progress in appointing independent directors,** selected through an open process, either to complement government-nominated directors or to fully replace them. This would also ensure that these individuals meet the technical competencies and have experience in development.

D. Advance inclusive and representative governance in the development cooperation system

None of the existing international coordination platforms in development cooperation fully meet the requirements of representativeness, legitimacy and effectiveness. The OECD's DAC is effective for ODA reporting, standard setting and monitoring but lacks representativeness. The Development Cooperation Forum is much more inclusive but is limited in standard setting and monitoring. The Global Partnership focuses narrowly on the aid effectiveness agenda, and the International Forum on TOSSD is still in its early stages. To address these gaps:

a. **Integrate governance:** Move towards a more integrated governance system under the United Nations, coordinating existing mechanisms with shared work programmes. Incorporate the OECD DAC to provide technical expertise on ODA, while enabling platforms like the Global Partnership and the International Forum on TOSSD to continue specialized work, and feed results into a unified United Nations body.

b. **Strengthen regional frameworks:** Regional frameworks like SEGIB, SELA and the African Union should incorporate development cooperation agendas, fostering institutional strengthening and experience-sharing among countries with similar contexts, contributing new visions and demands.

c. **Promote regional integration frameworks:** Encourage regional integration frameworks to actively participate in global governance, enriching standards and practices through closer collaboration and shared experiences.

E. Reaffirm multilateral engagement

An essential way to reduce fragmentation and strengthen cooperative responses to shared problems is reaffirming countries' multilateral engagement. In an increasingly connected and interdependent world, it is imperative to have multilateral mechanisms to coordinate policies and govern these interdependencies. The multilateral system, especially the United Nations system, is a privileged arena for enabling dialogue, fostering agreement and allowing cooperative action at the global level. Therefore, at a time of serious weakening of this system, countries must strengthen their contribution and support for multilateral development action, while at the same time calling for a profound reform of these institutions (financial and non-financial) to enable them to better manage the current challenges. In this context, we need to prevent the increasing fragmentation of the multilateral landscape. Additionally, in recent years, the tendency of donors to fund multilateral institutions through earmarked funds (instead of core contributions) has been unduly strengthened, limiting the capacity and autonomy of multilateral institutions. It is thus necessary to:

a. **Simplify the global institutional aid architecture:** Progress towards simplification of the institutional landscape of multilateral aid management, strengthening alliances and joint work

programmes between multilateral institutions.

b. **Use the existing institutional framework more broadly:** Whenever possible, channel donor initiatives through the existing institutional framework instead of creating new funds to add to the lush landscape of existing ones: a new fund is not always a solution to a financing challenge.

c. **Strengthen financial support to multilateral action:** This should preferably be provided through core contributions instead of abusing earmarked contributions.

d. **Provide more concessional finance through MDBs:** Donors should offer more generous replenishments for the concessional financing arms of the MDBs.

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