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The Pact of the Future—Financing Issues

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Submissions for the Summit of the Future were requested at the end of 2023. CIC developed and submitted a short input on financing and the Sustainable Development Goals (SDGs). This note lays out our rationale and narrative concerning financing for development.

Background—why is financing such a contentious issue?

In part, this is because the events of the last few years have increased global financing needs—for pandemic recovery and preparedness, for climate, for social protection and economic development to overcome price shocks and other international pressures.

In addition, global financing plays a role in escalating grievances about double standards. Double standards are, of course, a broader argument, from failure to coordinate COVID-19 vaccines to questions over different applications of international humanitarian and human rights law in Ukraine versus Palestine. Financing plays a role here, however, because of obvious inequities following COVID-19. HICs spent 24 percent of their gross domestic product (GDP) on stimulus and social protection programs in the first year of COVID-19; MICS could spend only 6 percent and LICS only 2 percent. Debt distress has risen dramatically in the last four years; 25 percent of emerging market countries are at high risk of default, while among low-income countries 60 percent are either at high risk of default or already in default.

Some of the reasons financing paragraphs became contentious in recent resolutions are more process-based. Using the SDG Summit Political Declaration as an example, the draft text was too detailed in some respects and laid open challenges as to what should be decided in different governance structures. Some areas were insufficiently tailored to the current state of debate at the IFIs, G20, and other international platforms, risking being out of date at the time of publication. In some aspects, they were not specific enough, missing an opportunity to bring new ideas to the table. Last, they did not focus sufficiently on the core comparative advantage of a UN platform for these discussions, which is to link the achievement of the SDGs, global political stability, and peaceful international relations with financing.

International tax cooperation has been another issue that lays bare North-South divides. The reasons that resolution A/C.2/78/L.18/Rev.1, *Promotion of inclusive and effective international tax cooperation at the UN* was opposed by almost all Northern countries, except Norway and Iceland, are various. Some are interest-based due to fears that faster movement against base erosion and profit shifting, the process whereby profits from multinationals are logged to low-tax countries, would affect revenues in some Northern countries. Many, however, are process-based. The most important are the dynamics within the European Union (EU), where governments inclined to compromise were held to a unified European position that is not so inclined. Even for governments with more margin of maneuver outside group blocs, however, short timelines for discussion with ministries of finance and tax authorities made compromise difficult. A third is impatience with demands for international tax cooperation from countries that capture very low domestic revenues themselves, even from the most affluent of their citizens and companies.

There is time before September 2024 to overcome some of these divisions and focus attention on the urgent need to agree on a compelling, focused, and action-oriented argument for more and better global financing.

There has been a discussion over whether the first draft will be a complete draft or focus on concepts. There may be advantages to focusing on main messages, concepts, and operable actions in consultations in the first quarter, avoiding immediate descent into haggling over text. This would also maintain attention in missions and capitals at a more senior level in the first part of negotiations.

Further, rather than returning to a text that rests on old UN resolutions and agreements, we believe that it would be better to introduce messages and operable frameworks that reflect new realities. The UN is not the primary international platform for thrashing out detailed agreements on economic issues. It can, however, be a first mover in setting the political direction for such economic negotiations.

The below is an attempt to lay out some of the concepts that could be included to this end. Many of these are referenced in the Secretary-General's excellent Policy Note on Reform of the International Architecture. What is difficult for the Secretary-General and his staff to do, however, is to point to possible compromises around these ideas, which could address the different economic and financial interests of countries at different income levels and in different regions. This note attempts to put some ways of thinking about "bargains" and "races to the top" on the table that could foster that kind of compromise.

1. A new core bargain: DRM and international tax cooperation

In this divided atmosphere, calls by the G77 for greater **international tax cooperation** are well placed despite the first reaction of developed countries to the recent resolution. They rest on a different logic from official development assistance (ODA)—that of economic independence and entitlement to returns to developing countries from their own production and consumption activity. These calls have not to date specified substance but rather a process: there is plenty of time for developed economy treasuries to engage in consultations that reflect their views.

One issue that could be appealing to donor countries, and yet not against the interests of the G77, is to link domestic resource mobilization to international tax cooperation. At present, average tax revenues are 13.8 percent of GDP for LICs, 19.7 percent for MICs, and 32.5 percent for HICs. Countries at the lowest income levels will have lower tax revenues because people rely more on subsistence activities; nonetheless, the gaps are very large. All country groups have an interest in capturing more domestic resource revenues, provided the collective action problem that can foster a "race to the bottom" is addressed in terms of low-tax jurisdictions attracting both companies and high-income earners/high-net-worth individuals. Taxation of companies with choices over their headquarters can be addressed through international tax cooperation, so here we address individuals and local and national companies.

All country income groups have lost revenues from those at the top of the income spectrum in recent years and have poor data on the incomes of the top percent of earners. There is potential for all to gain from making norms of domestic revenue mobilization an international issue. Low-income countries have practical revenue gains to make, but high-income countries have both practical gains and a narrative advantage—aid seems more appealing when the wealthy in developing countries are also contributing their fair share. The World Bank, in its Corporate Scorecard exercise, is likely to agree with all its shareholders a target of 15 percent of GDP in DRM—not a target considered to be particularly ambitious by most analysts, but a target, nonetheless.

The SoTF has an opportunity to move this debate forward. Elements of a core bargain on international tax cooperation and DRM could include some of the following: (i) a normative statement that everyone needs to contribute to national and global development and crisis prevention, including multinational companies as well as citizens who are affluent and have profited in the past from growth; (ii) the explicit recognition that DRM and international tax cooperation are mutually reinforcing; (iii) an agreement that the scope of the proposed framework convention on international taxation will include normative targets or guidance on DRM, possibly differentiated by country income level and going beyond 15 percent as a range, as well as international measures; (iv) an agreement that the scope of international tax measures considered will contain quantitative ranges at similarly stretch target to the "beyond 15 percent" for revenue gains for low-income countries.

2. Expanding the core: adding ODA and public expenditure issues to tax

Recent UN resolutions have continued to call for the 0.7 percent of ODA that was promised by developed countries in 1970, as well as the 100 billion a year pledged in climate financing, the loss and damage fund established at COP27, and the new push by G77 for an international tax cooperation treaty. Southern countries deserve greater support after the past four years, particularly given the acceleration of climate change impacts and the failure to coordinate COVID-19 vaccine provision and access to financing. Looking further back calls for restitution for inequities of the past, whether regarding colonization or climate change, remain relevant histories that fuel current grievances—these are, in fact, a major focus of the geopolitical contestation going on, and a target of anti-West narratives that have traction now in developing countries. As economic and political power shifts, these arguments will continue to move with them.

There are good reasons to call countries to account for past actions and past promises in multilateral fora. In the short-term, however, developed country treasuries have proven resistant to demands for ODA that they feel do not reflect their current domestic fiscal realities and are not accompanied by a sufficiently compelling argument as to why a significantly increased effort in ODA for development or climate finance would be in their national interest. This is a real political constraint.

How to come up with an argument for dramatically increased ODA in the current moment that both persuades developing country treasuries and makes ODA a living issue in both donor and recipient partner countries for citizens and taxpayers? The following arguments are important for developed country treasuries and, to a great extent, also for non-DAC economies such as China and the GCC.

For the provision of ODA:

a. Grant-based ODA can help prevent costly future crises. The investment of funds now will be less costly than recovery after crises in the future through climate adaptation, large-scale movements of refugees and migrants, and the fueling of extremism.
b. Grants are crucial to make good use of MDB reforms, to ensure concessional funding for least developed and debt-distressed countries, and for global public goods in middle-income countries. Ministries of finance understand that, without the commitment of considerably more grant-based funds, the promises in the reform of the World Bank for more support to public goods cannot be met without taking funds from least developed (IDA) countries. Current commitments are far from being able to achieve this balance. For example, the United States and Germany have committed roughly USD 800 million to the World Bank's hybrid facility for concessional finance to middle-income countries for global public goods. The annual budget at the university where we are based, NYU—just one private university in New York—is 17 billion dollars.

c. Returning to our previous section, ODA can also increase domestic resource mobilization through assistance with reforms and capacity, alongside strengthened international tax cooperation and commitments to strengthen measures to fight corruption, a universal challenge in all countries.
d. ODA is crucial to maintaining balance in geopolitical contestation and further global public goods. More than humanitarian aid is needed because it does not engage with local institutions. The division of countries into Cold War-like blocs of "China-supported, Russia-supported, Western-supported" societies is not healthy for their populations. But neither is it in the interests of any of the major powers to leave vacuums in their own engagement. There are a variety of ways of providing aid that can ensure donor countries are not interfering in partisan politics in contested situations. Realistically, countries will contest influence, but the continued presence of major powers allows for collaboration when unanticipated crises such as Ebola hit remote areas of the world.

To answer questions about the expenditure of both ODA and domestic resources:

e. Noting the importance of taxpayer confidence in ensuring that domestic resources and ODA are well spent, it is crucial, as was done in the SDG Summit Political Declaration, to reaffirm commitment to strive to eliminate safe havens that create incentives for the transfer abroad of stolen assets and illicit financial flows, and to combat corruption in the domestic arena. This includes implementing obligations to prevent and combat corruption, bribery, and money laundering in all forms enshrined in the existing international architecture, particularly in those prescribed in the UN Convention Against Corruption and the UN Convention Against Transnational Organized Crime.
f. However, given that these commitments have not resulted in a notable decrease in corruption—in either developing or developed countries—it would be useful for the Pact of the Future to go further. It could, for example, commit to completing the second review cycle of the UNCAC in a given (and high) percent of countries by the end of 2025, including transparent dissemination of country reviews, as well as providing public statements of measures taken following reviews. It could explicitly commit to establishing beneficial ownership registries and requirements for financial institutions to check beneficial ownership by a specific date, a crucial measure to act on corruption, and one that also assists in tax collection at both national and international levels.

3. Specific ideas that build on the comparative advantage of the UN

Debt and trade are two other areas where defining high-level political risks and setting direction for further negotiations could be valuable, while the details would be agreed upon through other multilateral structures such as the WTO, IFIs, and G20.

Trade. The world is fast dividing into different blocs, with moves to restrict trading to these alliances. The International Monetary Fund (IMF) has published a useful paper in this regard on the geoeconomic fragmentation that goes alongside heightened geopolitical tensions. The pact of the future could point to current and future risks in this regard and highlight a role for the UN in mediating arrangements between contesting parties to continue trade that facilitates the welfare and protection of populations through, among others, the free flow of food, fuel, and medicines. The Black Sea Grain Initiative is a model. This is essentially a mediating role rather than a financial role, but it is one that the UN should be well-positioned to play in the coming years.

Debt. There have been both progress and setbacks on debt. There is a potential role for the UN on debt. Most debt-distressed countries at present have non-Paris club creditors—particularly but not only China—among the main decision-makers. It is in the interests of the Paris Club to have a mechanism in which China will participate. It is in the interest of China to have a new or updated mechanism, in which it is not simply joining procedures and norms it had little role in setting. It is in the interest of debtor countries to have a mechanism that brings all sovereign debtors to the table (although domestic private debt remains an issue). There could be value in a more specific proposal in the pact of the future that considers: (i) the early warning mechanisms that signal in good time when debt accumulation is becoming unsustainable; (ii) how to reform the architecture of debt negotiations to take account of an inclusive range of sovereign actors as well as the domestic private sector, and ensures conclusion of negotiations within a reasonable timeframe; (iii) lessons learned on what makes for a good debt deal; (iv) capacity support to LICs on debt negotiations.

4. Areas of action that should wait to assess early 2024 developments

There are two areas of active economic policymaking at present where member states would be advised to adopt a "wait and see" approach before engaging in discussing text for the Pact of the Future.

The first of these is the mission of the World Bank and its associated goals, financing instruments, and operational procedures. A new mission for the World Bank was already agreed upon by the time of the SDG summit, and most of its associated goals, metrics, and operational instruments will have been agreed upon by the time of the SoTF. There will likely still be an opportunity to input to this, but the text should await after the IFI spring meetings to suggest once the remaining outstanding issues are clear. One opportunity for the SoTF may be to engage on expanding inclusive and effective governance at the multilateral development banks (MDBs), as laid out in the Secretary-General's Policy Note, in particular the argument for more seats for developing countries and regions, following progress made in the G20 in the representation of the African Union (AU); quota reform at the IMF; and, at a practical level, better staffing of developing country executive offices, including African Executive Directors, to enable them to carry out their representational functions.

The second relates to Special Drawing Rights (SDRs). The UAE contributed an additional USD 200 million to the International Monetary Fund's (IMF) Resilience and Sustainability Trust, bringing the total SDR reallocation to USD 87.1 billion, below the 2021 pledge of USD 100 billion.

The COP-28 did however see some progress on commitments to recycle SDRs to the African Development Bank and Inter-American Development Bank, a proposal that has the potential to act as a precedent for other regional development banks and the World Bank. Noteworthy support came from the United Kingdom, France, Spain, Japan, and the IMF for redirecting SDRs through the hybrid capital instruments proposed by the African Development Bank and the Inter-American Development Bank, signaling progress in ongoing SDR discussions.

Similarly, a "wait and see" approach to how the SDR debate evolves in the coming period would be judicious to assess how reference in the pact of the future might give a political push to this issue.

5. Additional ideas

Specific additional ideas that deserve consideration in the pact of the future—because they relate to the dysfunction of the past few years in the international architecture for financing—include the following:

The role of private credit rating agencies: Private credit rating agencies are mentioned in the Secretary-General's policy note as a core part of the international financial architecture. Three private credit rating agencies make up 95 percent of the market. The regulatory framework for international credit rating agencies was somewhat strengthened after the 2008 financial crisis, notably in the EU. Regulations remain quite minimal, however, and credit rating agencies retain a disproportionate role in public policy, given that they represent shareholder interest rather than the broader public interest. This has resulted in negative incentives to join international initiatives on debt, such as the debt service suspension initiative. In addition, the rating of countries on public policies without sufficient contextual understanding continues to pose risks for social and political instability (for example, in Colombia's 2021 social protests). An international framework convention to regulate private creditor agencies could be a big idea for the pact of the future.

Standing platform to convene in complex emergencies: The emergencies of the last four years, from COVID-19 to the price rises following the Ukraine and Israel-Gaza conflicts, show the need for a more established platform to bring together different parts of the IFA with political and diplomatic efforts. At present, we have no rapidly triggered mechanism to consider the impact of complex emergencies in the domains of political mediation, security, trade, monetary stability, investment, and global health. The Secretary-General put forward one proposal for this: it does not need to be the final proposal (which could also include a strong General Assembly role in convening such a mechanism), but the need is clear. It could go alongside a political and normative commitment of "never again" regarding the failures in coordination during COVID-19 and a commitment to always protect the most vulnerable as a first-order requirement.

6. Conclusion: the UN's normative and implementation role in the international financial architecture

The secretary-general's Policy Note puts forward a key role for the UN as a "norm-setter and implementer" in the international financial architecture. Since consideration of the UN's specific role is worthwhile in the pact of the future, it is worth assessing what the UN's normative and implementation comparative advantage is and could be. We would suggest that:

The UN does indeed have a norm-setting role, but it is primarily (i) strategic, in developing new concepts for core institutions of the international financial architecture to consider (as it has done over the last 30 years with concepts of social and human development; governance participation and voice; the development goals and climate; and in the broader economic arena over a much longer period with regard to trade, development and labor rights), and; (ii) statistical, given the UN Statistical Commission is the highest body of the global statistics system. The UN could (and we believe should) play an important strategic norm-setting role on debt and tax, but it would be unlikely that this would include the setting of detailed financial guidance.

As an implementer, the UN is, of course, a significant implementer of global humanitarian and development ODA, but this is not generally understood to be the central elements of the international financial architecture. In this narrower sense, the Secretary-General, in his own policy note, defines the international financial architecture to be the functions or entities listed in Annex A below. This definition could, of course, be debated, but it is a fair starting point. All these institutions, except the UN, are highly specialized in the international financial functions that they address. An important question for the UN's member states is, therefore, what, if any, implementation role the UN would play.

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Annex A: Secretary-General Policy Note definition of the International Financial Architecture

a) Governance of public international financial institutions, such as the MDBs and the IMF, as well as other international public development banks and global funds (such as the Green Climate Fund);

b) Financial standard-setters that establish norms for the governance of private finance, such as the Financial Stability Board, the Bank for International Settlements, the International Organization of Securities Commissions, the International Accounting Standards Board and the Financial Action Task Force;

c) Monetary arrangements, such as regional financial arrangements and the network of bilateral swap lines;

d) Informal country groupings that act as norm-setters, such as the Group of Seven (G7) and Group of 20 (G20);

e) Formal but non-universal norm-setting bodies, in particular the Organization for Economic Co-operation and Development (OECD);

f) Creditor groups that address sovereign debt issues, including the Paris Club, the London Club, the Common Framework for Debt Treatments beyond the Debt Service Suspension Initiative, agreed by G20 and Paris Club countries, and the International Capital Market Association (a private entity that publishes model clauses for debt instruments), as well as global credit rating agencies;

g) UN as a norm-setter and implementer.

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