Finance for Development: Framing the Discussion

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Comprehensive approach

- All sources and forms of finance
  - Taxes, investment (FDI), banks, portfolio flows, remittances, debt, equity, SDR’s, foreign assistance (lending by MDB’s)
  - Negative flows (illicit money, royalties, surcharges, repatriation of profits)
- With attention to quality as well as quantity
  - Finance translated into sustainable, long term investments
  - Facilitating macro-stability
- Policies in developing countries, developed countries, bilateral agreements, multilateral agreements

Objective of FfD4: Concrete agreements + setting in motion initiatives

- Will need prioritization and judgments about what is feasible now and in the intermediate term
- Concrete agreements
  - Prioritization for UN Tax Convention
  - Annual SDR emissions for climate and mechanism to improve reallocation/better allocation
  - Improvements in Debt Mechanism
  - Investment agreements
- Creating longer term work streams

Prioritization for UN Tax Convention

- Digital Tax, Service Agreement
- Registries of beneficial ownership, automatic exchange of information
- Tax havens, illicit flows

Focus on international issues, not domestic (such as progressivity of taxes)

SDR’s

- Annual emission of $300-500B would not be inflationary (compensate for deflationary bias)
  - But need better system of allocation or “recycling”
    - And should rethink rules governing charges
  - Doing so through MDB’s provides leverage
  - Even if not all advanced countries participate can have big impact
    - Need to put pressure on all countries to participate in one way or another
- Developed countries will find it difficult to meet obligations/commitments, especially concerning climate
  - Used for addressing major global market failures—disparity between private and social returns on green investments in developing countries
  - Social risk associated with investments in solar very low

Debt

- Debt crisis facing many countries, but even countries not facing debt crisis facing development crisis
- Large payments mean countries won't be able to make crucial developmental and environmental investments
  - With large impacts on countries and world
- Long run goal: better debt restructuring mechanism
- Medium term goal: better contracts (CAC's not sufficient; asymmetric conditional contracts may be a step in wrong directin)
- Short term goals: legislative changes (New York and UK law: prejudgment interest, Champerty, Comparability of Treatment), regulatory changes (role of rating agencies), changes in IMF practices (no bail-outs of private sector—forcing private sector to reduce interest rates in sustainable restructurings; longer maturity reprofilings; better DSA's, using appropriate discount rates; no austerity; recognizing UN principles, including national sovereignty)
  - Might change bargaining outcomes

Innovative solutions

- “Swaps” “Brady-type bonds”
- Use SDR’s to make real investments (some generating cash returns, such as green electricity)
- Swap current risky bonds for collateralized bond, with a lowering of interest rate to reflect lower risk

Investment agreements

- Recognized as an impediment to climate action
- ISDS flawed mechanism for dispute resolution
- Move towards global agreement to terminate and make awards under ISDS not enforceable—violation of national sovereignty
- Develop model agreements that recognize responsibilities as well as rights, better dispute resolution mechanisms, greater flexibility in response to changing circumstances (SR: Commitment to do so; LR: set up workstream)

Multiple other items on reforming global architecture

- IPR
- ST capital flows/capital controls
- Would be helpful to have longer term work streams on key elements