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South Centre Statement to the

Third International Financing for Development Conference

Statement of the South Centre
Third International Financing for Development Conference
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(PLEASE CHECK AGAINST DELIVERY)

Mr. President

Honourable Ministers,
Distinguished Delegates
Ladies and gentlemen,

I bring warm greetings from our Chair, H.E. Benjamin Mkapa, the members of the Board, the Secretariat, and Mr. Martin Khor, Executive Director of the South Centre, whom I have the pleasure and privilege to represent before you at this podium.

The question that this conference must face is whether the future actions inspired and stimulated by the FfD process will provide the policy space and the scale of financing flows required by developing countries. Will the forthcoming FfD process kick away the ladder of success for countries seeking to permanently overcome poverty through industrialization and economic diversification? Will the FfD outcome represent a setback to Africa's ambitious 2063 deadline in achieving sustainable development?

In the FfD process, domestic resource mobilization has been the singular area of success. Developing countries doubled their domestic public finance mobilization between 2002 and 2011, doing their part of the FfD "bargain." However, this effort is being greatly undermined by corporate tax and transfer pricing actions. Setting common norms among countries on how to treat such actions is critical. However these norms are being set in an intergovernmental manner only among OECD members. Upgrading the UN tax work to an intergovernmental level as originally proposed would have ensured that those countries most adversely affected would have a seat at the table in setting common standards.

Harnessing private investment toward sustainable development is another hallmark of the FfD process. The bulk of investment flows have to come from private sector resources but the FfD process has always recognized that the public sector must have a lead role in unlocking long-term, patient investment based on national priorities as opposed to edgy, speculative portfolio positions that can fly away at a moment's notice. This requires effective controls of the capital account. An earlier proposed text in the outcome document required country's to take the IMF's view that capital controls should only be used as a last resort. This is not a good approach. The FfD process must protect and enhance domestic policy space so that authorities can direct private investments in support of their chosen sustainable development pathways.

In terms of financial regulation, sustainable development goal 10.5 requests international action to "Improve regulation and monitoring of global financial markets and institutions and strengthen the implementation of such regulations." **Unfortunately the outcome document has not addressed this topical systemic issue properly, and thus** has foregone the opportunity to elaborate on the means to achieve this goal.

Developing countries have experienced their greatest economic reversals in episodes of debt distress. "External Debt" has always been a key chapter of FfD. The Doha Declaration of 2008 sought the migration of debt resolution mechanisms away from bodies, such as the Paris club, that are controlled by creditors – to fulfill the Monterrey mandate that both creditors and debtors must be jointly responsible in such situations. It is lamentable that the Addis outcome does not move forward in this regard and reaffirms the voluntary, market-oriented approach, quite a distance from common notions of the "rule of law," which has proven to be unpredictable and socially costly to debtor countries.

Developing countries none of whom issue currencies that are widely used in international reserves must contend with the treacherous situation created by the over-dependence of the international payments system on the US dollar. The international currency is hostage to the booms and busts of the political cycle in the United States. Both the Monterrey and Doha outcomes called for serious study of the increased use of an intergovernmentally created reserve asset called the Special Drawing Rights. The outcome document does not reiterate this call.

In fact the pitfalls from the dependence of the international system on one national currency highlight the need in multilateral cooperation to follow the principle of common but differentiated responsibility. A thriving and growing international trade and payments system is the common responsibility. But reserve issuing countries must bear a greater responsibility because their actions have strong spillovers on other countries. This is a responsibility that countries that do not issue reserve currencies can never fulfill.

The ongoing global economic crisis, unresolved after eight years, is a reflection of the long road ahead to achieving an international system that is enabling to the development efforts of developing countries. This has always been the promise and bold initial effort of the financing for development process.

Although the outcome document could have been better if it included the points we raised above, it does have useful points on which we can all follow up. In particular, the outcome document has made some progress in that it establishes a Technology Facilitation Mechanism and also a rather strengthened follow up and reporting mechanism for the FFD process. We hope that these two institutional issues will be followed up strongly after this conference, so that the benefits of this conference can be better realized.

The South Centre is prepared and willing to strongly participate in the follow up processes and mechanisms of this conference.