Third World Network - TWN

STATEMENT AND INPUT ON SYSTEMIC ISSUES

UN FINANCING FOR DEVELOPMENT FIRST DRAFTING SESSION

NEW YORK, JANUARY 2015

(By Bhumika Muchhala, TWN, New York)

Co-Facilitators and Member States,

Thanks for this opportunity to speak on systemic issues, which should indeed be a cornerstone of the third Financing for Development outcome document and process, as originally envisioned at the birth of the Financing for Development initiative in the early 1990s.

International systemic issues are vital to ensuring that financing for development is not confined to merely financial resources, which may not have **development-oriented impacts** if the larger structures of finance and trade remain unreformed.

At the outset, international systemic issues should be framed by the guiding principles of **coherence, governance and consistency**.

The Financing for Development Elements paper can go significantly further in emphasizing the importance and scope of **international monetary and financial system reform** in order to facilitate an enabling international environment for sustainable development through enhancing global financial and macroeconomic stability.

International monetary and financial system reform entails key aspects, such as the following three, among many others:

1. Effective **macroeconomic policy coordination** among the leading developed countries. International monetary cooperation and policy coordination is key to ensuring that the monetary policies of developed countries, which affects the movement and nature of international portfolio flows, do not trigger exchange rate instability in developing countries.

Such cooperation includes coordinated monetary policy interventions and macroeconomic policy coordination among concerned countries for the objective of limiting large swings of exchange rates among the key reserve currencies, including the US dollar, the euro, yen and the pound sterling. (Since 2009, there have been waves of competitive devaluations, or currency wars, among many developed countries, with adverse repercussions for developing countries).

2. The Elements paper supports strengthening the use of **Special Drawing Rights** in the global reserve system, which is to be welcomed. However, the paper can further emphasize that a systematic issuance of SDRs, according to need rather than IMF quotas, is necessary for the effective functioning of the global reserve system.

   Having SDRs as the main international reserve asset would not only be less expensive and more effective compared to the US dollar, but could also provide a buffer to stabilize foreign exchange reserves and secure macroeconomic stability in times of financial crises.

3. The Elements paper is right to point out, in Section G, that "*there is still no global mechanism to swiftly ensure substantial resources in times of liquidity crisis, or to manage excess liquidity and limit spill overs in boom periods*." Thus, systemic risks and volatile international capital flows contribute to the accumulation of foreign exchange reserves in many developing countries as an act of 'self-insurance' to protect themselves from the insecurities of international capital flows.

   To address the volatility of private capital, all countries must have the ability to manage and implement capital account regulations. Such regulations in source countries (from where capital flows originate) are particularly necessary, and the Elements paper can go further in stressing this.

   In conclusion, capital account regulations in both source and recipient countries and Special Drawing Rights are only some ways to address the current dependence of the international payments system on the US dollar.

   There should be further options provided to addressing systemic problems in the global reserve system and with the harmful volatility of international capital flows in order to enable developing countries to use their excess foreign exchange surpluses (above what is needed for precautionary purposes) for financing and investing in their domestic sustainable development strategies.

Potentially useful action items in the systemic chapter can be supported from the Elements paper:

- Reducing volatility of financial markets and private capital flows;
- Enhance global macroeconomic stability including through policy coordination and policy coherence;
- Remove obstacles to capital account management and regulations, including in trade and investment agreements;
- Limit capital account spill overs from source countries with international coordination;
- Adopt measures to ensure the proper functioning of food commodity markets and their derivatives, and facilitating timely access to market information;
- Increasing long-term investment by institutional investors in sustainable development;
- Promote capital markets regulation that integrates sustainable development factors;
- Promote incentives along the investment chain that are fully aligned with long-term performance and sustainability indicators;
- Reducing systemic risks of banking and shadow-banking systems;
- Enhance regulation and supervision of under-regulated financial markets and institutions, such as shadow banking and 'too-big-too-fail' institutions;
- Expand the frequency and availability of the Financial Sector Assessment Programme for all countries;
- More quickly limit financial regulatory reliance on credit rating agency assessments; fostering increased competition in the credit rating sector.