Presentation
Interactive Session
Expert Committee on Financing for Sustainable Development

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About our recommendations

Financing sustainable development in its 3 dimensions: social, environmental, economic

Millennium Declaration: “We recognize that . . . we have a collective responsibility to uphold the principles of human dignity, equality and equity at the global level.”→ int’l cooperation to mobilize resources NOT just a choice

Holistic and comprehensive approach: Adds to Monterrey / Doha Consensus (**without** substituting them, or prejudging next FFD Summit outcomes)

Outline

Financial regulation

Reform international monetary system

Intergovernmental cooperation tax matters

Governance of IFIs

Debt

Infrastructure financing

Trade

Financial regulation

Relevance to mobilization of resources:

1)Transition: from finance-driven development to sustainable development-driven finance.

2)Crises are unavoidable, but could be less frequent and severe, and have fairer distribution of impacts

3)Safeguard public resources (avoid bailouts of financial firms)

Financial market regulation should be: primarily national, comprehensive (all actors) and participatory (for all affected)

Enabled by freedom for countries to use capital controls

Financial regulation II

No financial institution should be allowed to grow so big or complex that in case of failure it cannot be safely wound down without risk to the economy and vital banking services. (Simplification & downsizing, cross-border resolution)

Capital requirements: should emphasize leverage ratio; not allow banks to establish own risk weights; bring implementation forward (2015)

Shadow banking: strict reporting requirements to give basis for more effective regulation; clearance mechanism for innovative products

Credit rating agencies: governance reform to ensure accountability; limit regulatory reliance; alternatives to "issuer-pays" model

Financial regulation III

Derivatives markets regulation:

Commodity derivatives reform especially relevant to developing countries (harm to import and export side)

Carve out trading of instruments whose underlying asset is nature

All derivatives must be traded in public exchanges and centrally cleared, in addition to being reported to trade registers. Central clearing houses should have adequate capital buffers and require collateral for each transaction. (Ban particularly risky products such as *Credit Default Swaps,* and dangerous speculative practices like *Naked Short Selling* should be banned.)

Set ex-ante position limits and avoid publicly-insured firms' involvement in derivatives transactions

Financial firms should not be engaged in physically holding commodities

International Monetary System

Macroeconomic policy and social policy, not separate categories:

Tackling unemployment, inequality and exclusion part and parcel of lasting macroeconomic stability

Counter-cyclical, rather than pro-cyclical, macroeconomic policies—subject to *ex ante* and *ex post facto* gender, human rights and environmental impact assessments

International Monetary System II

Relevance to mobilization of resources:
If reforms are right, they can:

- Ensure rebalancing and adjustments are non-recessionary;
- Limit exchange rate volatility; and,
- Promote innovative mechanisms to enable the generation of development and climate finance.

Three pillars:

- A credible system for coordination among deficit and surplus countries;
- A transition path towards a system with a supranational currency as the cornerstone – revamped Special Drawing Rights can serve as a proxy leading towards such currency; and,
- Support for countries to use capital flows management measures

Complemented by regional financial and monetary architectures on: 1) reserve pooling, 2) development finance institutions, 3) currencies , 4) capital flows management coordination.

Intergovernmental cooperation tax matters

Progressive, transparent and accountable taxation systems should be central to any sustainable development financing strategy. (Estimates of losses to developing countries due to illicit financial flows: USD 800 bn a year)

Indispensable international cooperation measures:

--Increase tax transparency, close tax havens & secrecy jurisdictions

--Strengthen UN's role, including upgrading UN Committee of Experts on International Cooperation in Tax Matters

--Implement Financial Transaction Taxes (good for revenue and for systemic stability)

--International agreement on public automatic exchange of information and public registries of disclosure of beneficial ownership of companies

--Prevent transfer mispricing: including County by Country reporting

OECD "*Base Erosion and Profit Shifting*" Plan: promising but could have negative impacts, too (if it reaffirms wrong principles)

Governance of Int’l Fin Institutions

Implement already agreed voting reforms, including transfer of 2 ED chairs from Europe (one of them to Africa)

Reform quota formula giving more weight to “demand” variables; greater weight to Purchasing Power Parity and population; double majorities

Leadership selection

Broaden membership financial regulation bodies (countries that currently are “policy-takers”)

Debt

Debt re-emerging as a problem:

Among LICs: 4 countries are in debt distress, 13 are at high risk and 27 at moderate risk

Several Caribbean and Pacific Island at risk or in distress

European bailouts, Argentina vulture fund case

Roll back of QE to have further impacts

Debt II

Recommendations:

Reviewing onerous debts and cancelling illegitimate debts, especially in least developed countries;

Revising Debt Sustainability parameters to make them more objective and prioritize financial needs for meeting development goals above debt repayments.

Establishing an independent and fair public debt workout mechanism to avoid "too little, too late" that prevails in the current ad hoc, case-by-case patchwork of mechanisms to address debt crises. Ex –ante rules for fair burden-sharing would be the best way to promote responsible lending and prevent build up of unsustainable debt.

The UN should lead design and implementation of such a mechanism.

Features: 1) One single "insolvency" process that involves all creditors, 2) Impartiality in decision-making over terms and conditions of a restructuring, 3) Impartial assessment of individual claims' validity, of the sovereign's sustainable debt level and hence eventually necessary debt relief.

Infrastructure financing

Form should follow function→ if needs of vulnerable and poorest communities are priority, then infrastructure: 1) appropriate scale (not necessarily large), 2) shorter time horizon, 3) safeguards that abide by Rio Pples., 4) embedded in industrial policy

Broad range of financing options, from public to private, should be discussed (and their distributional implications)

Caution about PPPs: not necessarily cheaper to the public treasury as PPPs may hide fiscal costs and risks (explicit and implicit contingent liabilities, tax incentives, under-investment). They can also socialize costs while privatizing benefits and worsen inequality (income/access)

When choosing a PPP form: fiscal and debt risks should be properly scrutinized through mechanisms for organized social participation and monitoring, contract transparency, institutional and capacity pre-requirements should be in place

Trade

Still critical source of finance (especially for DCs), but domestic value added matters

Compatibilize trade and investment rules on financial services with re-regulation of finance

Review trade and investment agreements to adequate them with commitments on sustainable development

Close democratic deficit in trade agreements

Guarantee meaningfulness, weight, operationalization and legal status of Special and Differential treatment, removal of agriculture subsidies in North, and flexibilization of IPR regime

Thank you.