

Financing for Development 2005

**Setting-up New Rules for Global
Finance that promote sustained
development**

Promoting Sustained Development

- ❖ **Creating New Rules for Global Finance Coalition**
- ❖ **International Financial Architecture**
 - ❖ Ties to Development
 - ❖ Progress so far
- ❖ **Financing for Development Agenda & Process**
- ❖ **Analysis of Problems**
 - ❖ Unstable and Insufficient Capital Flows
 - ❖ Distribution of Capital
 - ❖ Institutional Oversight
- ❖ **Seeking Solutions: Systemic Issues Consultative Process**

Organization

- ❖ Started in 1999 in response to the Asian crisis with the objectives of developing reform proposals for the global financial architecture and preventing future financial crises.
- ❖ Members of the boards are academics, activists, and policy makers from developed and developing countries, from religious, labor, development, and environmental perspectives
- ❖ Through discussion panels mobilize its expert and experienced members to analyze existing financial institutions and policies and to propose alternatives that will bring about more equitable and environmentally responsible results.

International Financial Architecture and Development

❖ The wave of currency and banking crises that swept through developing countries in the 1990s made it clear that fundamental reforms were required in the international financial system.

❖ Besides the objective of achieving financial stability, an equally important goal is the provision of adequate capital flows (private+ public) to developing countries.



A development -oriented reform of the financial system would not only benefit developing countries. Strong growth in developing and emerging market economies provides growing markets for developed country exporters and profitable opportunities for developed countries investors.

What progress so far

Progress to date on these issues has suffered serious problems

Reforms have focused excessively on making changes to financial sectors in developing countries. Far less attention has been given to international institutions and developed country financial markets.

The design and implementation of financial system reforms have been uneven and asymmetrical in several key aspects, e.g., problematic governance in key institutions.

Financing for Development (FfD)

- In this regard the Monterrey Consensus provided for the first time an agreed comprehensive and balanced international agenda and an on-going process, which should be used to guide and evaluate reform efforts.

- The sections of the Consensus on systemic issues are particularly relevant to the reform of the international monetary and financial system in support of development.

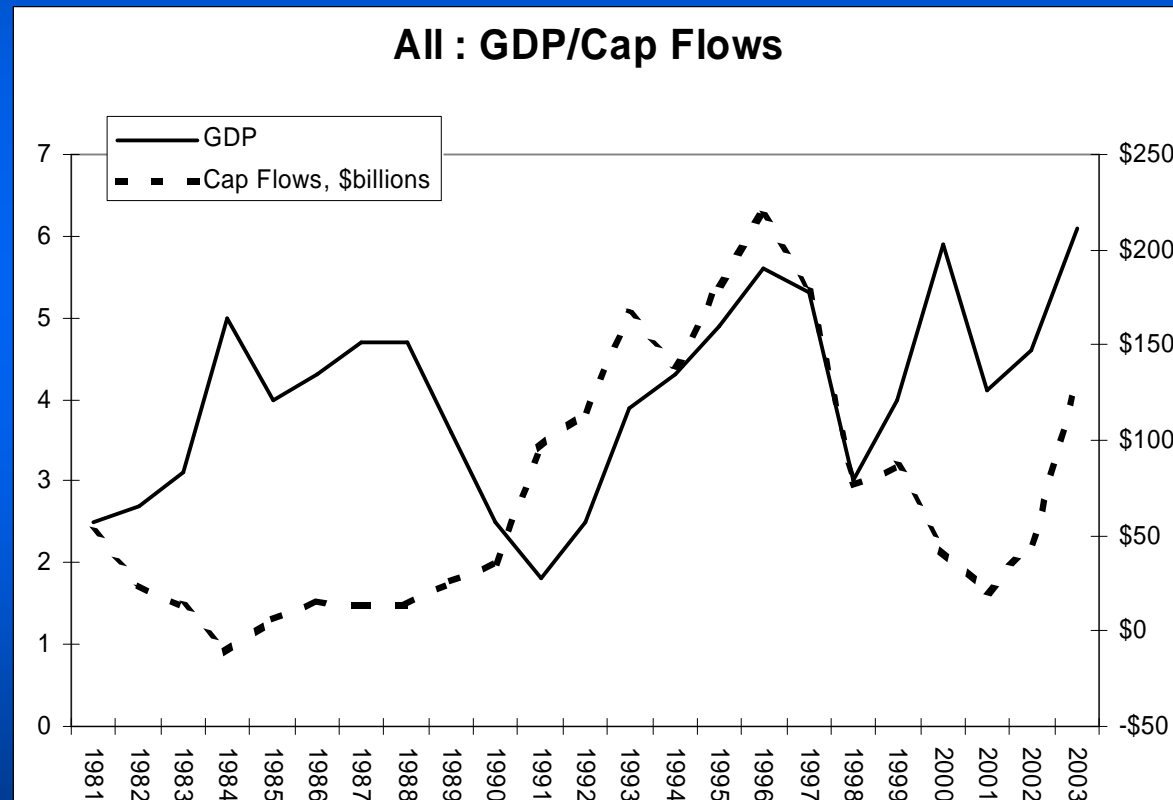


- consultations to examine issues, exchange information and promote best practices in the area of systemic issues

Key Problems: Unstable and Insufficient Capital Flows

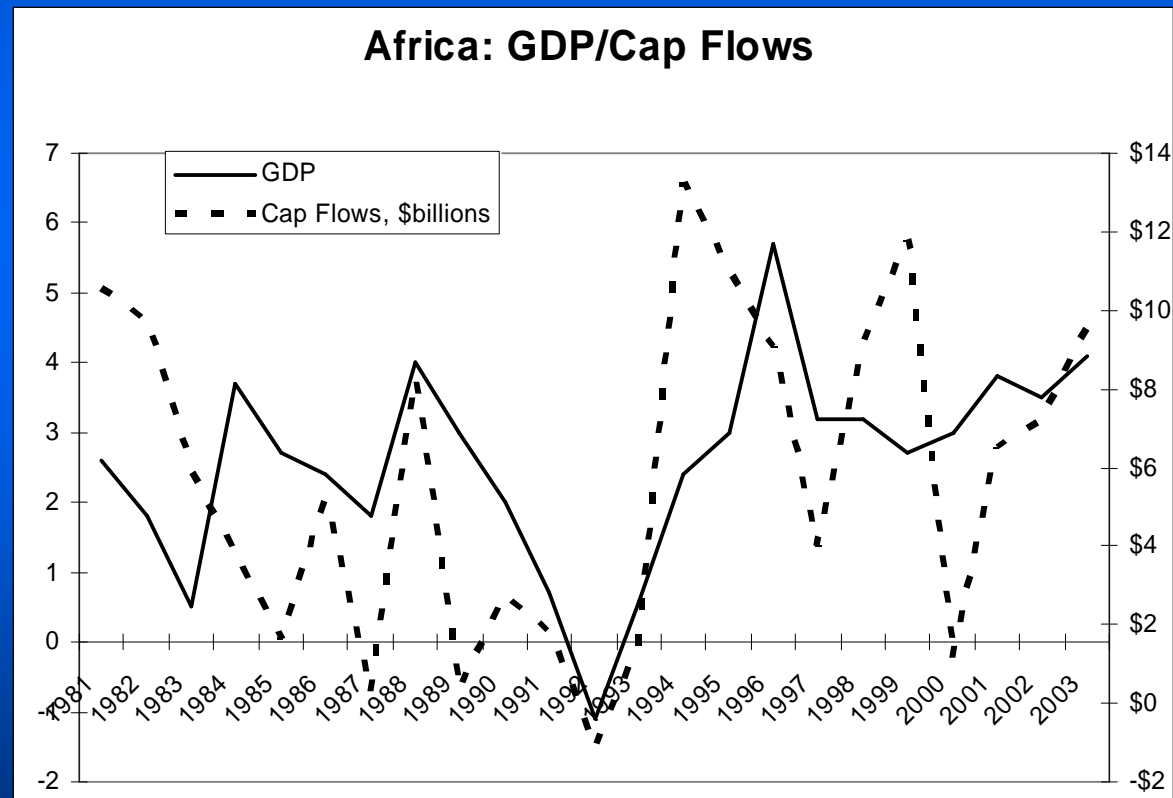
For too many developing and emerging market countries, international financial capital flows at times have been too volatile and at others have been too insufficient to promote sustained development. This is the case for FDI, portfolio, bank loans, and even official sources of capital.

International Capital: Important But Not Dependable

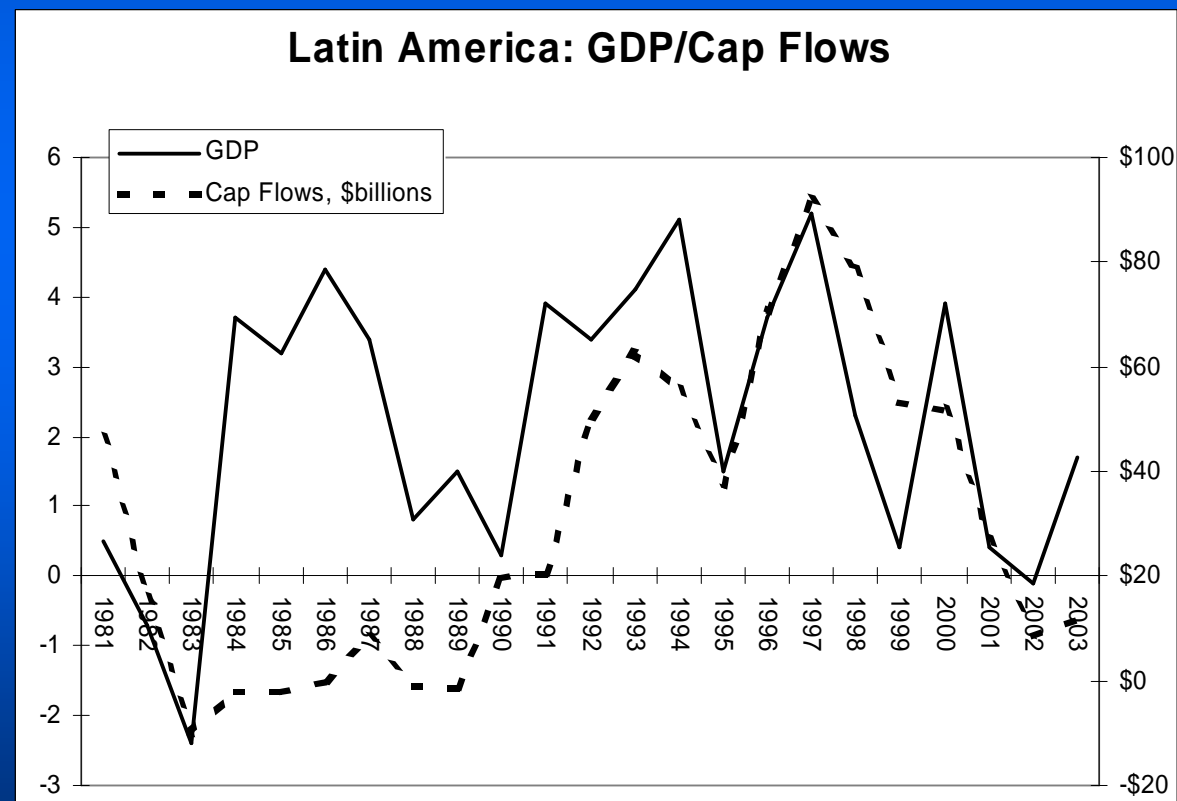


Compares GDP of emerging market and developing countries including selected advanced economies and capital flows of Emerging market and developing countries including selected advanced economies.

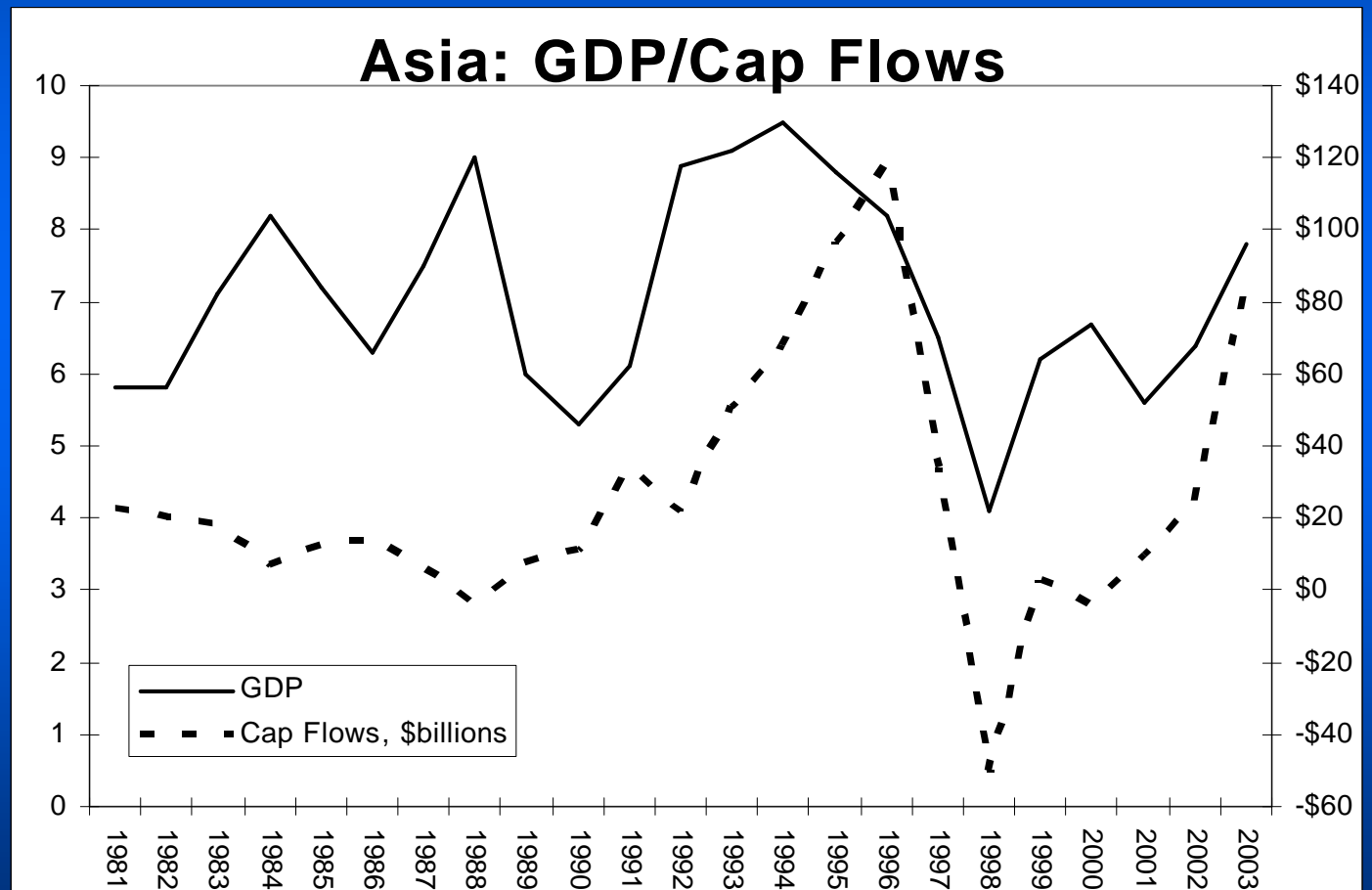
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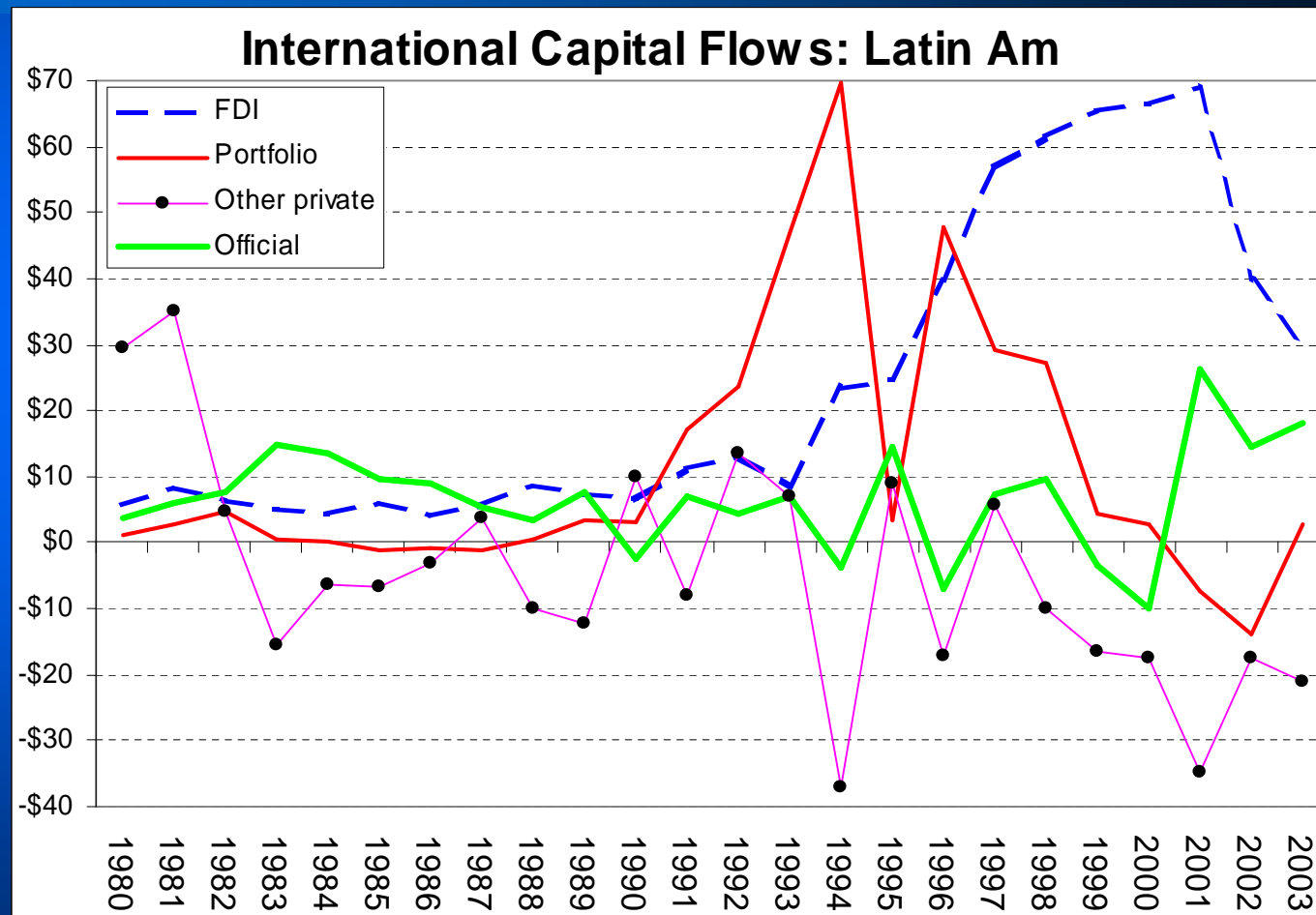


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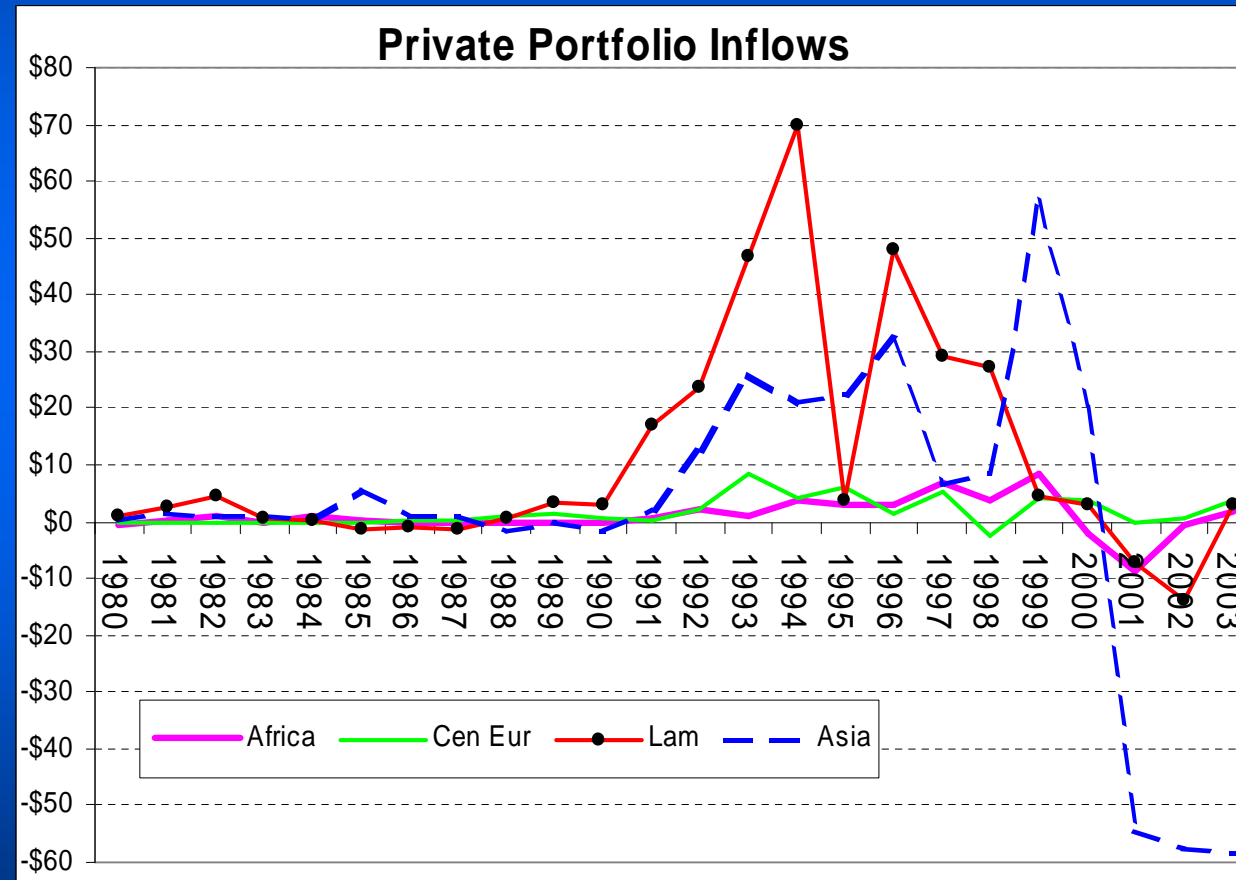
Developing Asia for capital flows defined to also include Hong Kong SAR, Korea, Singapore, and Taiwan Province of China

Some types of flows are more volatile than others



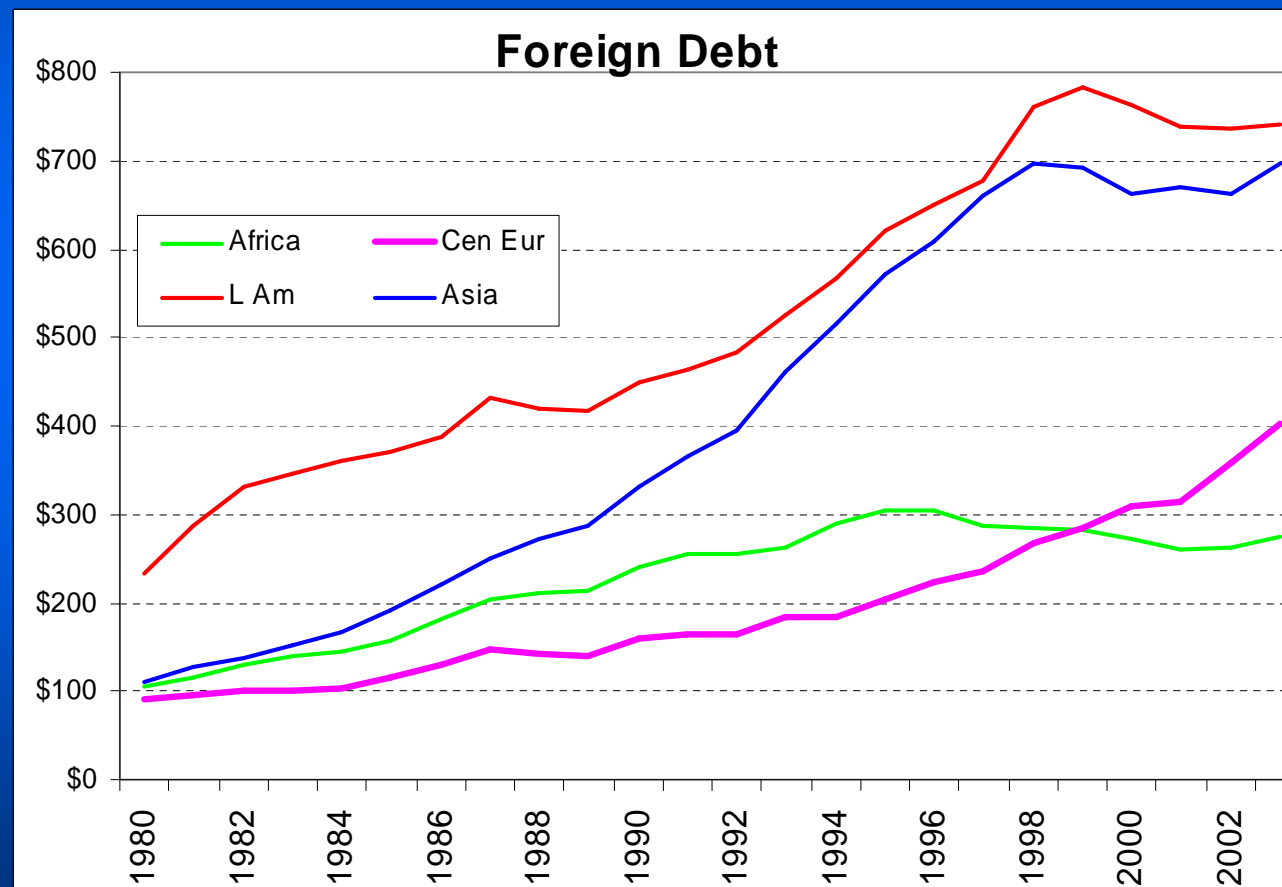
Latin America was chosen because of incomplete data for other areas.

Flows to some areas are more volatile than others



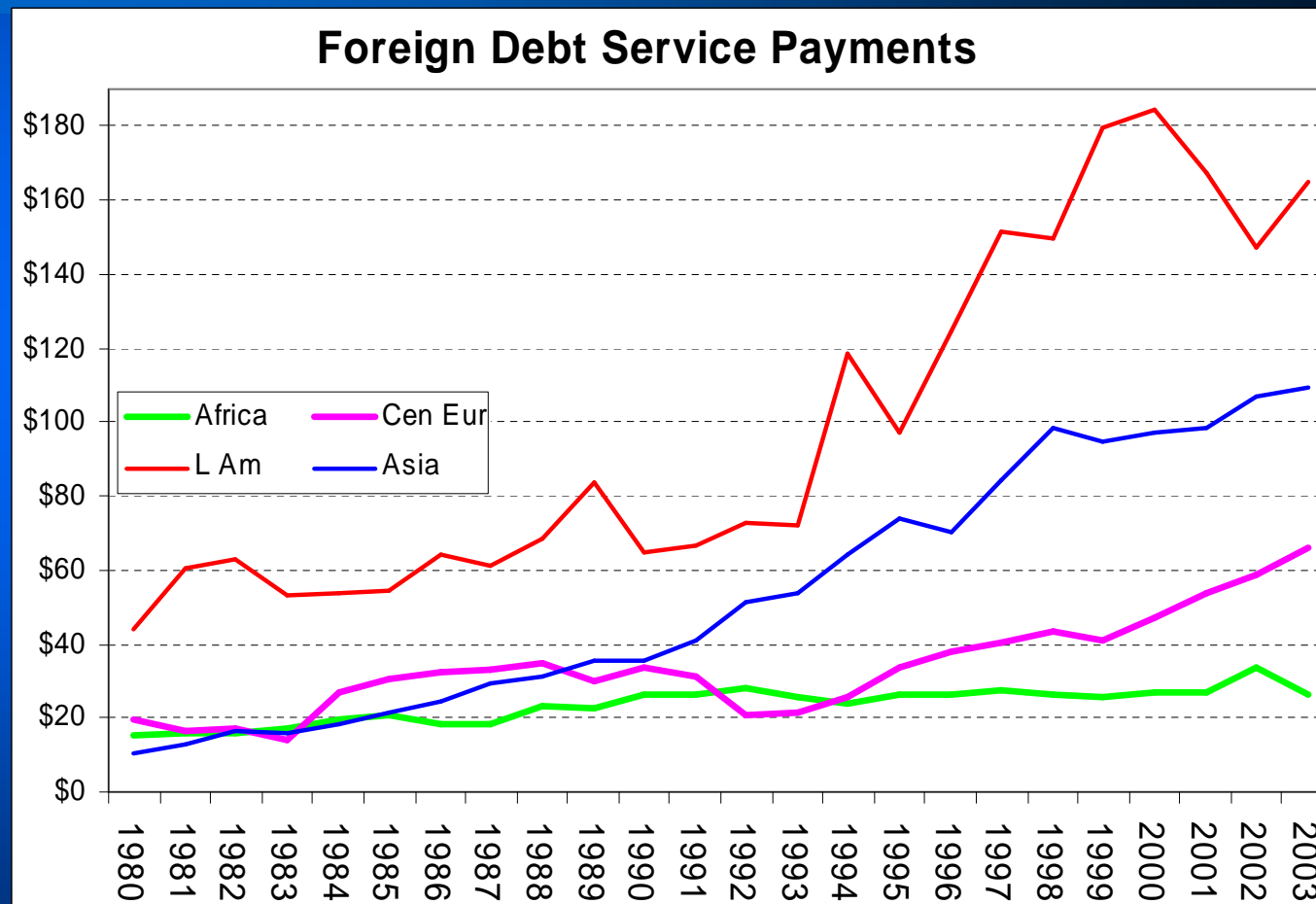
Net private portfolio flows include the purchase of private equity shares (amounting to less than 10% of firm) and debt securities debt (e.g. bonds). Measured in US\$ billions.

Some types of flows are too persistent



Total foreign indebtedness in billions of US\$

Persistent debt and its legacy

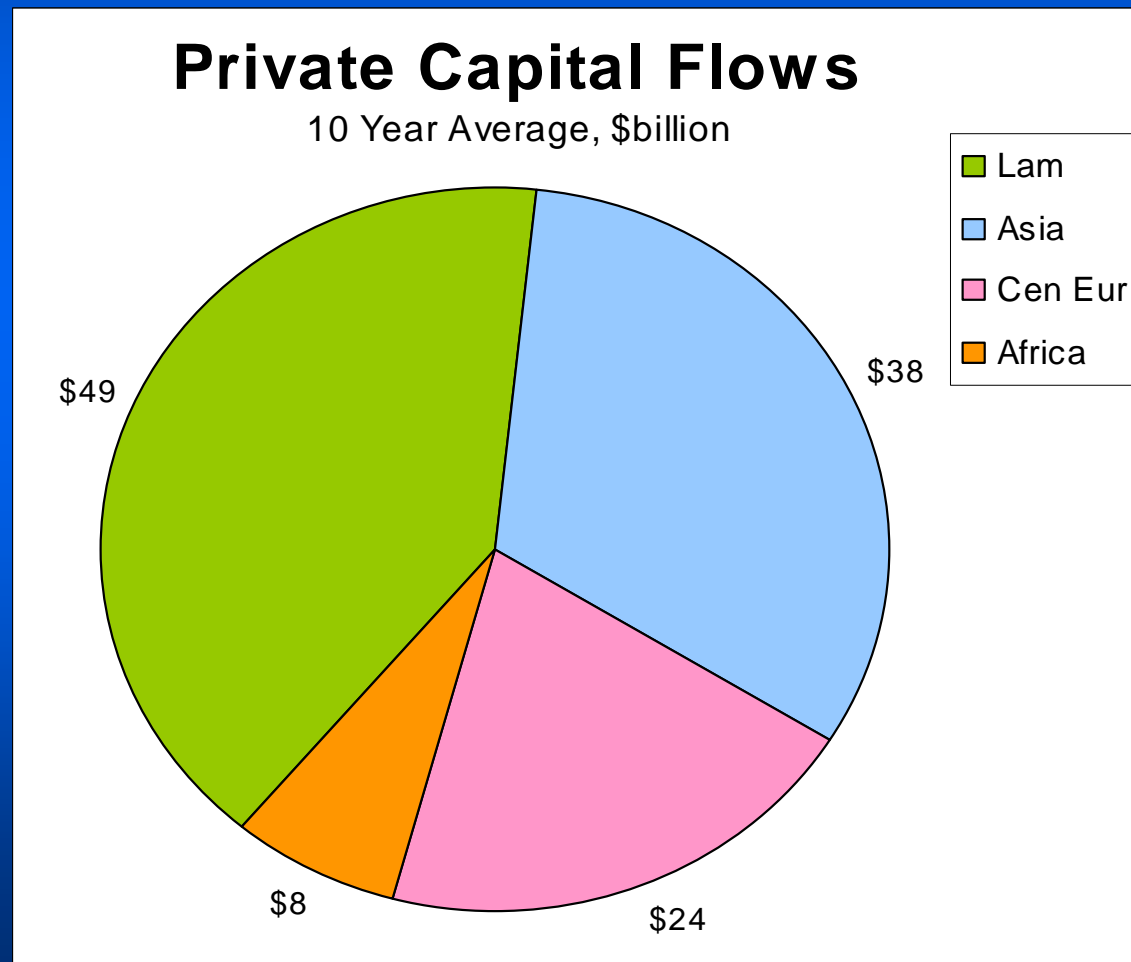


Principle and interest payments on total foreign indebtedness in billions of US\$

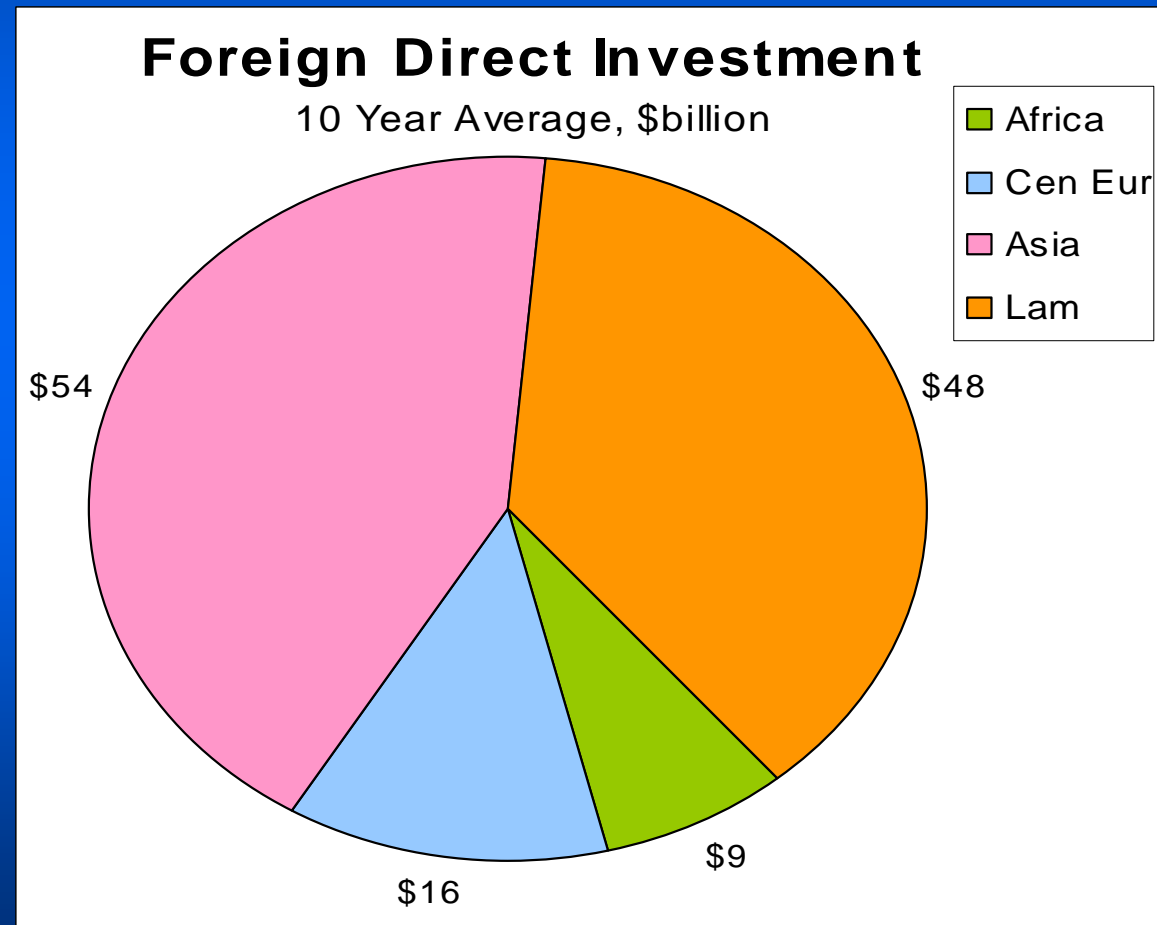
The Problem: Distribution of Capital

Private international capital, the largest source of funds for development, has a skewed distribution pattern.

Capital flows are concentrated



Even FDI is concentrated



The current status of international finance and development

- ❖ The current financial system is characterized by instability and highly uneven distribution of capital.
- ❖ The current patterns of financial flows impede development and worsen poverty, whether one looks at financial crises or more recent financial droughts.
- ❖ Developed, emerging market, and developing countries all require adequate, long term, patient capital to sustain growth capable of reducing poverty.
- ❖ Stable and sufficient supplies of capital are needed, and so too, are stable economic environments to attract and retain those supplies.

The Problem: Institutional Oversight of Financial Stability

- ❖ Besides the WB and IMF, major policies are being formulated in ad hoc fora such as the Bank for International Settlements (BIS) and the Financial Stability Forum (FSF).
- ❖ These bodies are organized and led by the developed countries, with some participation by “systemically significant” countries.
- ❖ Private standard setting bodies, such as those for auditing and accounting, and public standard setting bodies such as those for securities and insurance are also formulating international policies.

Next Steps

Therefore,

- ❖ **The multi-stakeholder consultations on Systemic Issues will focus attention on institutions and policies that can result in sustained development.**
- ❖ **Changing the rules and the rule-making processes is likely to require a different mix of decision-makers.**

Approach

- ❖ Effective and equitable representation of all countries in the design and implementation of financial system reforms
- ❖ The impact of the current reform agenda of international financial institutions, in particular “Standards and Codes”, on systemic stability and poverty reduction
- ❖ Evaluation of alternative policies, such as counter-cyclical prudential regulation, designed to protect countries’ financial sectors and support growth and poverty reduction
- ❖ Expert consultants will develop scenarios and solutions