CIVIL SOCIETY FINANCING FOR DEVELOPMENT MECHANISM

2023 Financing for Development Forum

Session 1: Coping with cascading crises and investing in sustainable development: How to make the right policy choices?

Statement by Bhumika Muchhala of the Third World Network on behalf of Civil Society FfD Mechanism (including the Women's Working Group on FfD)

17 April, 2023

Good morning to all Member States and UN and international agencies and colleagues,
I speak on behalf of Third World Network, the FfD Civil Society Mechanism and the Women's Working Group on FfD.

The origins of the Financing for Development initiative, and its first conference in Monterrey in 2002, are rooted in the systemic asymmetries defining the international financial and monetary architecture, which cannot be resolved on the national terrain and reveal their steep social and economic costs through recurrent crises. With high inflation averaging over 9 percent in the last year eroding real incomes, a global cost-of-living crisis has pushed millions into poverty and economic hardship.

Over the last year, rapid and ongoing interest rate hikes by the US Federal Reserve has triggered currency depreciations in at least 90 countries, over a third of them by more than 10 percent, while the dollar has appreciated significantly. The domino effects in the developing world are daunting: capital flows out, balance of payments pressures worsen, domestic interest rates increase, sovereign debt, much of it foreign denominated, intensifies, bond spreads widen, import bills soar, financing conditions tighten, the labor share of income shrinks, and foreign exchange reserves plummet. In fact, developing countries have already spent an estimated $379 billion from reserves to defend their currencies in 2022, almost double the amount of new Special Drawing Rights, or SDRs, allocated to them by the IMF in 2021.

On net, developing countries are financing developed ones through multiple systemic channels and exogenous effects over which no extent of macroprudential policies, including inflation targeting, have any sway over. Meanwhile, history illustrates that developing countries experience their greatest development reversals, especially in gender inequalities, during international balance of payments crises.

Due to the taboo and legally enforced inability for developing countries to employ capital account regulations through trade and investment agreements, the South has little choice but to increase domestic interest rates, while in some cases the IMF requires borrower countries to tighten rates as 'prior action' upon which a loan is conditional. Monetary tightening, or raising domestic rates, induces economic recessions across the global South, while short-term and volatile capital flows keep reinforcing systemic risks – this points out the extreme injustice of the North's monetary imperialism and its so-called "spill-over effects." *It is again time for* *international institutions to seriously revisit the need for capital account regulations on both outflows and inflows, not as an exceptional and temporary measure, but as a permanent and pre-emptive policy tool for liquidity and solvency crises as well as for the prevention of debt and currency crises.*

While SDRs are a non debt creating and unconditional reserve asset, which the UN SG also pointed out in the opening, its quota-based distribution led to over two-thirds of the $650 billion issuance in 2021 to go to developed economies that didn't need them. Meanwhile, at least 99 developing countries used their SDRs for health and welfare needs such as Covid vaccines and social protection financing. *The potential of SDRs to provide needed fiscal liquidity can be activated by decoupling SDR issuances from economic power and instead, allocating by economic need. IF allocated by need, regular issuances of SDRs acts as a powerful countercyclical boost toward a more resilient global financial safety net, which also helps prevent currency depreciations triggering cost-of-living crises in the South.*

While credit rating agencies exert authoritative power over the terms and stability of credit for sovereign borrowers, they are also marked by multiple dysfunctions, including monopoly power, conflicts of interest, procyclicality and lack of accountability - all of which have generated risks in every financial crisis over the decades. *With political will, the UN system could establish a universal, intergovernmental ECOSOC commission to ensure coordinated action in regulating Credit Rating Agencies. Such a commission should also issue recommendations towards creating an international public credit rating agency.*

Last but not least, the voice and participation of developing countries in macroeconomic decision-making, particularly within the IMF's executive board, is the litmus test for legitimate and democratic economic governance. *For the first time in 15 years, the ongoing 16th quota review in the IMF considers a new formula to increase the vote share of under-represented members. The redistribution and expansion of voting rights has long been an FfD priority, and the current review process is the time to finally fulfill it.*

The Monterrey Consensus of 2002 underscored how systemic inequalities required international cooperation for a global economic system that works for all. In the center of multiple and intersecting crises today, a course correction to a long history of unequal conditions and colonial hierarchies requires a firm commitment to regulatory and governance reform of the international financial architecture.

Thank you.