Challenges of International Finance for Development and Attempts by the Commonwealth Secretariat to Address Them

by
Ransford Smith
Commonwealth Deputy Secretary General
at the
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Thank you Dr Kaul.

Mr Chairman, Rt. Hon Stephen Timms, Hon. Bogollagama, José Antonio Ocampo, Under Secretary-General of UNDESA, Ladies and Gentlemen,

I welcome everyone to Marlborough House, the headquarters of the Commonwealth Secretariat. Let me also express appreciation to UNDESA and to the CBC, partners in organising this workshop.

Mr Chairman, the Monterrey Consensus covers six areas of Finance for Development (FfD) and is itself a major reference point for international development cooperation. The six areas are:

i. Mobilising domestic financial resources for development
ii. Mobilising international resources, in the form of private capital flows (including FDI) for development.
iii. Increasing international financial and technical cooperation for development.
iv. External debt.
v. International trade as an engine of development.
vi. Addressing systemic issues hfor enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

This is indeed a wide spectrum and(inclsc f-406.56 123.8 TD -0.012 Tc 0 Tw (iii.) Tfor e0.12 04c (

laundering and the financing of terrorism. Our advocacy work has also sought to highlight the unintended and adverse effects of indiscriminate application of international regulatory initiatives intended to combat money laundering and the financing of terrorism. Many of those affected are small island states with international financial centres, who are diversifying, or have already successfully diversified their economic base and are now finding that the bar is set higher for them than for their onshore counterparts.
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(ii) In the second area, **Mobilising International Resources,** Global private capital flows to non-OECD countries continue to grow at a rapid pace, with total flows increasing steadily from US$172 billion in 2002 to US$490 billion in 2005. There is a rising trend of South-South flows, with developing countries increasingly becoming a significant source of FDI, bank lending and even ODA to other developing countries.

However, there are a number of challenges and negative aspects of the existing volume and pattern of capital flows to developing countries. One major challenge is the high degree of geographical concentration and lopsidedness of FDI flows, with low-income countries (LICs) accounting for only about 10 percent of FDI flows and a much smaller percentage of non-FDI components of private capital flows.

Another challenge posed by the surge in capital flows is the risk posed to the recipient countries. For instance, the recipient countries have to undertake more proactive management of increased foreign reserves caused by the increased capital flows. As is known, a surge in portfolio capital flows raises the risk of asset price bubbles just as the resulting current account deficits and real exchange rate appreciation raises risks relating to macroeconomic management.

I hope in you deliberations you will come up with practical solutions to these issues. For our part, the Commonwealth Secretariat has been at the forefront of assisting member countries, particularly two key constituents, Sub-Saharan Africa and small states, address some of these challenges. Given the time constraints, Io key constituen attracting FDI. It has promoted foreign direct investment flows in the form of private equity funds. A number of these funds have been liquidated, after achieving their objectives with considerable success, and successor ones are in the pipeline.

- The **Commonwealth Initiative on Public-Private Partnerships (PPP)** seeks to promote PPPs, mainly in infrastructural facilities, in Commonwealth developing countries, in general, and post-conflict ones, in particular. Our activities in this area, some of which are in collaboration with the Commonwealth Business Council, are aimed at bringing would-be private conside 1.8823 ii ii ii ii iIi49Bo2a1 i23 To in the fo donors' enthusiasm in providing assistance, and negatively affect poor countries. We agree with the World Bank's view (in 2006 issue of its *Global Development Finance)* that empirical evidence on the macroeconomic consequences of aid surges is inconclusive. Calculations on our part also show that, even in the very unlikely event that the donors meet their pledge to double aid to Africa to US$50 billion by 2010, the aid absorptive capacity indicator (viz: aid as a percentage of GDP) of the region would be about 7 percent. This absorptive capacity indicator of about 7 percent compares favourably with what was attained in early 1990s. It is important that this problem, to the extent that it exists, should not be couched in a form that would provide a rationale for donors to reduce aid. Instead, it should energize countries into action to enhance the capacity to absorb aid, and donors to endorse modalities such as delivery of higher proportion of the aid in the form of direct budgetary support.

We should therefore deliberate on how to address the practice of reducing aid volume as a result of changing from loan to grants; how to enhance implementation of the Paris Declaration and enlist voices of the south in reforming the aid delivery system; and how to minimise adverse macroeconomic effects of aid surges in recipient countries.

The Secretariat for its part has taken an active interest in promoting aid flows both in terms of improved quality and enhanced volume. Our activities have focused on how to give developing countries a voice in the ongoing debate about reform of the international aid delivery system. Accordingly, the Secretariat, working in collaboration with other like-minded organisations, has been at the forefront of the discussion on the international aid architecture. In this regard, we have held a series of consultative meetings in different regions of the Commonwealth to canvas recipient governments and civil society on their perceptions of various multilateral and bilateral aid agencies as well as the international aid architecture. Very interesting results, though still preliminary, have come out so far and we are holding further consultations with recipient country representatives on this.

(iv) External Debt of developing countries has been an issue of concern in international development since the 1980's. Despite the debt relief "Initiatives" since then, debt burdens of LICs still remain a challenge. Implementation seems bedeviled by a lack of goal congruence between the promoters (especially, the G8)

The Secretariat is very proactive in the areas of trade and time constraints do not permit me to highlight the entire scope of our activities on this. I would only point out that we have been assisting Commonwealth developing countries improve their understanding of international trade rules and regulations and helping them strengthen their effectiveness and participation in WTO and other negotiations. This is achieved by providing policy advice on international trade developments (including aid for trade issues), the WTO, ACP/EU relations and regional economic integration.

(vi) The sixth and final area is **Addressing Systemic Issues: Enhancing the Coherence and Consistency of the International Monetary, Financial and Trading Systems in Support of Development**

In this era of globalisation, international and domestic monetary and financial systems have become more integrated than ever before. This calls for adequate rules to guard against malfunctioning of a part of the system, which would transmit adverse repercussions on the entire international system. This raises several questions. Which bodies should be responsible for promulgating the rules? Which should implement or enforce the rules? How can financial crises be guarded against in future? 24j -187.64 0 TD 0.048 Tc 0 226Tw (a) Tj 6.72 0 TD0.003malfu10.024 w ((incl