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Creating policy space to reinvigorate the faltering global economic recovery

After an uneven recovery from the latest crisis, the global economy now faces intensified downside risks and uncertainty. The faltering global economic recovery, reflected by a sharp slowdown in economic growth in many developed economies coupled with a deepening European sovereign debt crisis and banking sector problems, calls for renewed and more effective international economic policy co-operation.

Macroeconomic policies worldwide are challenged at this juncture. In a context of persistently high unemployment and anaemic domestic demand in many developed economies, the shift towards severe fiscal austerity can exacerbate the difficulties. The phasing of fiscal consolidation therefore calls for careful consideration. The
spill over effects of such policies on the rest of the world are significant and can jeopardize development gains. Those economies retaining fiscal space may consider growth-enhancing fiscal choices in the short term to help create jobs, combined with credible plans over the medium term to restore a better fiscal balance.

As the global economy has become more interconnected and integrated, the size and volatility of international capital flows have increased significantly. National, regional, and multilateral responses are required to address risks associated with cross-border financial flows.

The IMF’s consideration of how capital account regulation can be helpful in managing short-term capital flows is to be commended, and should encourage discussion on cross-border capital flows in the macro-prudential regulation discussion at the G20. Policy advice and international co-operation on capital flows need to be even-handed, involving both recipient and originating countries. Building and strengthening global and regional co-operation on financial regulation would help developing countries cope with financial volatility, reduce the economic disruption from sudden swings, and decrease the perceived need for excessive reserve accumulation.

Such responses could be part of the broader reform agenda of the international monetary system. The present global reserve system depends on the stability of the few major reserve currencies and the national monetary policies associated with them. A more diverse allocation of international reserve assets could reduce the system’s exposure to risks stemming from crisis in any single economy. Multilateral development banks could consider expanding their bond issuances and
lending in the currencies of developing countries to deepen the internationalization of developing countries’ currencies.

To reinvigorate the faltering global economic recovery, there is a need for more forceful economic policy co-ordination at the international level. It is also crucial to continue laying the groundwork for strong, sustainable, and balanced growth in the longer term. Co-ordinated policies need to be put in place, not only to ignite economic growth, but also to ensure that growth is more inclusive and equitable, by creating job and income opportunities and enabling all to participate and benefit.

The latest political upheavals in the Middle East and North Africa remind us of the importance of inclusive and equitable growth. Economic inclusion broadens opportunities in other areas such as access to education and health care, which in turn will nurture strong, sustainable, and balanced growth, and promote macroeconomic and social stability.

*Financing for sustainable development*

Quality and predictable Official Development Assistance (ODA) remains critical for meeting internationally agreed development goals, including the Millennium Development Goals (MDGs). It needs to be accompanied by strengthened domestic resource mobilization, private international capital flows, international trade, and debt relief.

Enhancing the effective mobilization of domestic resources is especially important. To advance development, not only do countries’ economies need to grow, but also
revenue from that growth needs to be invested back into services and infrastructure.

Many forms of illicit financial flows divert scarce domestic resources away from development and seriously impede poor countries’ development efforts. The United Nations system looks forward to co-operating with the Bretton Woods Institutions to help developing countries fight illicit financial flows and enhance international co-operation on taxation.

Innovative finance mechanisms have the potential to generate significant, sustainable, and additional resource flows for development. It is important to scale up the existing mechanisms and explore new ones. Innovative finance mechanisms, however, are not a substitute for traditional sources of development finance.

To promote long-term domestic financing in developing countries, additional capitalization of multilateral development banks to expand their bond issuances considerably and lending in the domestic currencies of developing countries can be helpful. Focus needs to be put on supporting activities which contribute to domestic capital market development and resource mobilization for sustainable development purposes.

The upcoming United Nations Conference on Sustainable Development to be held in June 2012 in Rio de Janeiro (Rio+20) provides an opportunity to deliver a global consensus on the sustainable development agenda for the coming decades, and on complementary actions at both global and national levels.
Global co-operation on sustainable development requires a three-pronged approach in which (1) developed countries take the lead in changing their production and consumption patterns; (2) developing countries pursue their development goals but do so while adopting sustainable practices; and (3) developed countries commit to enable and support the developing countries’ sustainable development through finance, technology transfer, and appropriate reforms to the global economic and financial structures.

The United Nations is committed to supporting developing countries to get access to environmental finance markets in support of sustainable national development strategies.

*Deepening global economic governance reform to address the global challenges*

The need for more inclusive, effective, and coherent multilateral approaches to managing global challenges is now well recognized by the international community.

In bringing together large advanced and emerging economies, G20 leaders were able to formulate a co-ordinated response to the global economic crisis in 2009 and to advance the reform of the IMF and the World Bank to redress imbalances in voice and representation. The 14th IMF quota review represented a step in the right direction, but more could be done to improve further the representation in the governance structures of the Bretton Woods institutions.
The G20’s co-ordinated policies have impacts beyond its membership. That makes its networking and interaction with the formal multilateral system vital.

The United Nations Secretary General recently submitted to the UN General Assembly a report on “Global Economic Governance and Development” in which various proposals to strengthen global economic governance architecture are analysed. The Secretary General has urged Member States to give these proposals serious consideration.