



POSITION PAPER OF THE GROUP OF 77 AND CHINA ON NEW LENDING FACILITIES FROM INTERNATIONAL FINANCIAL INSTITUTIONS PRESENTED BY MR. KHALED HUSSEIN ALYEMANY, MINISTER PLENIPOIENTIARY, PERMANENT MISSION OF YEMEN ON BEHALF OF THE GROUP OF 77 AND CHINA, AT THE AD HOC OPEN-ENDED WORKING GROUP OF THE GENERAL ASSEMBLY TO FOLLOW UP ON THE ISSUES CONTAINED IN THE OUTCOME OF THE CONFERENCE ON THE WORLD FINANCIAL AND ECONOMIC CRISIS AND ITS IMPACT ON DEVELOPMENT (New York, 30 April 2010)

Introduction

1. The Outcome Document of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development highlights the systemic fragilities of the current international economic order.

2. It recognizes that increasing global liquidity could contribute to overcoming the financial crisis and correctly identifies the potential of expanding Special Drawing Rights (SDRs) as a response to the financial shortfalls and the developmental needs of the poor and vulnerable countries, thus contributing to the stability and equity of the global economy.

3. The Outcome Document further highlights the need to reform the current global reserve system to overcome its insufficiencies while recognizing the complementarity of regional and sub-regional efforts.

SDRs Liquidity Provision for Developmental Purposes

4. The global financial and economic crisis has demonstrated the need to urgently mobilize financial resources for liquidity (to meet financing gaps) and for developmental purposes. It has also renewed the role of SDRs as an important source of financing for development.

5. The G77 and China believes that the expansion of SDR allocations is an effective and low cost measure to quickly boost global liquidity, thereby providing developing countries in need with the means to meet their external financing gap and to implement counter-cyclical policies to mitigate the impact of the crisis.

6. SDRs can be held as assets in reserves at no net cost to be converted into hard currency if and when needed by Governments. In contrast to IMF loan financing, there are no conditions on SDRs.

7. Unlike most resources from donors and lenders, the unconditional funds derived from SDR conversions can be used for counter-cyclical public spending that can help counteract domestic recessions.

8. In this regard, the G77 and China considers it urgent to undertake further examination of the role of enhanced SDRs in the expansion of liquidity, stabilization and reform of the global reserve system.

9. The Group also underlines the need to promote SDRs for development purposes. While acknowledging the recent general allocation of SDRs, the G77 and China considers it insufficient. The Group urgently calls for a new and significant, general SDR allocation, in the current basic

period, to meet liquidity needs and promote development. Thereon regular allocations of SDRs should also be undertaken. In this regard underlines the importance of SDRs as a medium and long term potential source of financing for development.

10. The G77 and China favours undertaking further studies on enhancing the role of the SDRs in the global reserve system. In this regard the Group reiterates the request to the Secretary-General to present a report on the role of expanded SDRs by the end of the sixty-fifth session.

11. The G77 and China believes also in enhanced regional and sub-regional efforts as sub-regional development banks, regional and sub-regional reserve currency arrangements, and regional and sub-regional integration initiatives, which may have an important complementary role in liquidity provision and development.

12. In view of the nature of the international discussions on SDRs, the G77 and China calls for the Working Group to study in more details the enhancement of the role of SDRs for development financing and liquidity provision.

II. Reserve System

13. In the Conference member states called for further study of the feasibility and advisability of a more efficient international reserve system, including the possible function of SDRs in such system, and the complementary roles that could be played by various relevant regional arrangements.

14. The review of the international monetary system is another key element for the international community considering the need of diversifying the sources of reserves actives (the placement of international reserves), as a consequence of the global crisis.

15. The global reserve system should be reviewed so as to avoid the problems resulting, inter alia, from the current over reliance on one dominant national currency.

16. The G77 and China reiterates the need of a more efficient reserve system and also calls for further study regarding the matter, including with relation to the role for SDRs.

17. The global reserve system can be complemented by a stronger role for regional commercial and reserve arrangements.

18. An enhanced role of SDRs would help mitigate the inequality bias of the current global reserve system. It will do well to keep in mind that transfer of resources from developing countries to reserve currency issuers' countries is much higher than ODA to developing countries. 19. Then it is necessary to consider possible alternatives in order to diversity global reserves.

III. Maintaining and expanding policy space

19. The Outcome Document include references to fiscal space and the need to close the financing gap; the right to use capital restrictions; the need for flexibility to implement countercyclical policies and to pursue tailored responses; the need to streamline conditionalities of IMF and World Bank and MDBs, among others.

20. Developing countries are still facing an acute and severe shortage of foreign reserves and external financial gap because of the fallout of the crisis, negatively affecting their balance-of-payment situation. As mentioned previously the projected financial gap for developing countries is approximately US\$ 315 billion in 2010.

21. Conditionalities have required Member States to pursue pro-cyclical policies or adopt monetary and regulatory policies that contribute to fuelling the current crisis. These conditionalities contribute to global asymmetries and put developing countries at a disadvantage relatively to developed countries and undermine incentives for developing countries to seek support funding, contributing to global economic weakness.

22. BWIs should not impose pro-cyclical policies and conditionalities that undermine the policy space of developing countries. The G77 and China strongly believes that new and ongoing programmes should not contain unwarranted pro-cyclical conditionalities.

23. We consider that multilateral development banks must move forward on flexible, concessional and conditionality free, fast disbursing, and front-loaded instruments designed to substantially and quickly assist developing countries facing to meet their financing gaps and development needs.

24. The recent financial crisis shows that orthodox economic (BR) policies were powerless to prevent the crisis. It is now suggested that more accommodating macroeconomic policies, inclusive and pro-poor policies and greater government involvement might do a better job helping protect countries from financial turmoil.

25. Conditionalities have led to policies that in many cases constrained development and the ability to act to prevent or mitigate financial crises. It is very clear that in providing international liquidity the Fund should not impose structural conditions; nor should it insist on macroeconomic policy adjustments when payments imbalances are due to temporary external shocks beyond the control of the borrowing country. The G77 and China calls for the necessary policy space to promote development.

