



POSITION PAPER OF THE GROUP OF 77 AND CHINA ON MOBILIZING ADDITIONAL RESOURCES FOR DEVELOPMENT PRESENTED BY MR. KHALED HUSSEIN ALYEMANY, MINISTER PLENIPOTENTIARY, 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, 23 April 2010)

1. As the economy in some countries seems to slowly emerges from the depths of the global recession, the recovery is still fragile and yet to be consolidated worldwide. Furthermore, the crisis is projected to have long lasting negative effects on development, depressing potential output for years to come, raising the cost of capital and tightening the availability of credit, as well as impairing the economic and financial stability of many developing countries.
2. In terms of human and social development, developing countries are still bearing the brunt of the crisis. According to the World Bank, 64 million more people are expected to be living in poverty because of the crisis, most of them in developing countries. The International Labour Organization estimates that 31 million people lost their jobs or may be unable to find full-time employment in developing countries because of the crisis. Moreover, FAO estimates that the crisis has pushed more than 100 million people back into hunger, placing, for the first time, the number of hungry people in the world over the 1 billion mark. Unless the international community provides additional support for development, the achievement of the internationally agreed development goals (IADGs), including the millennium development goals (MDGs), may be seriously affected.
3. The Outcome of the United Nations Conference on the World Financial and Economic Crisis and its Impact on Development (Outcome Document) recognizes that the majority of the world's developing countries lack the fiscal space to implement countercyclical measures to combat the effects of the crisis and spur recovery. It further acknowledges that many developing countries are facing severe foreign exchange constraints as a direct consequence of the crisis. It therefore calls for an examination of mechanisms to ensure that adequate resources, both short-term liquidity and long-term development financing are provided to developing countries, especially the least developed countries. In this regard, the G-77 and China invites the Secretary-General to review existing mechanisms and to present concrete proposals on how to improve their functioning, no later than the sixty-fifth session of the General Assembly. As mentioned in the Outcome Document, developing countries should not be financially burdened by the crisis for which they are not responsible.

External Financing Gap

4. As a result of declining foreign investment, trade flows, revenues from tourism and remittances, developing countries faced an external financing gap of approximately US\$ 350 billion in 2009. Many developing countries were forced to curb domestic demand - thereby reducing their trade deficits - or to draw down on their international reserves (or both). Overall, developing countries consumed approximately US\$362 billion of their international reserves last year.
5. In addition, many developing countries had to rely on increased borrowing from the international

financial institutions. The World Bank increased its lending commitments by US\$12.8 billion in 2009 to record levels, and the IMF made additional commitments of US\$70 billion. Although developing countries welcome the decision to revive the special drawing rights (SDRs) allocation, after decades of inaction, it is noteworthy that, as a result of the prevailing country quota distribution skewed in favor of developed countries, the new special drawing right (SDR) allocation of US\$283 billion had limited benefits for developing countries, in particular least developing countries and countries in special situations and falls short of the needs for financing for development.

6. The World Bank estimates that developing countries will face a financing gap in 2010 of US\$ 315 billion. Most likely, this gap will remain large for the next few years. In order to adequately respond to the crisis and address its long-term effects, therefore, both short-term liquidity, long-term development finance and grants, at adequate levels and concessionary terms will need to be made available to developing countries, as a matter of priority. Regional development banks have a significant role in that regard and it is critical that the resources of these institutions be significantly scaled up.

7. The G-77 and China submits that international support is also needed to allow developing countries to implement countercyclical policies, in accordance with their national priorities and development strategies. Additional resources are needed, inter alia, for social protection, food security and human development, as well as for humanitarian assistance. It has even been estimated that countries eligible for World Bank/International Development Association (IDA) resources will require an additional US\$35-50 billion to maintain current levels of social spending. Additional resources would be needed to scale up investment to mitigate the impact of the crisis and accelerate progress towards achieving the MDGs. Furthermore, those developing countries facing an acute and severe shortage of foreign reserves because of the fallout of the crisis should not be denied the right to make recourse to temporary capital controls and to seek agreements with creditors on temporary debt standstills, with a view to mitigating the adverse social and economic impacts of the crisis.

Official Development Assistance

8. Official Development Assistance (ODA) remains essential both as a complement to other sources of financing and as a catalyst for development, facilitating the achievement of national development objectives, including the MDGs. The global crisis cannot be an excuse to avoid existing aid commitments. The Outcome Document rightly recognizes that an effective response to the current economic crisis requires timely implementation of existing aid commitments and that there is an urgent and unavoidable need for donors to fulfill them. Developed countries must meet and scale-up their existing bilateral and multilateral official development assistance commitments and targets made, inter alia, in the United Nations Millennium Declaration, the Monterrey Consensus, the 2005 World Summit Outcome, at the G8 summit in Gleneagles, in the Doha Declaration for Financing for Development and at the G20 London summit. An enhanced predictable and sustainable flow of ODA is essential to meet the regular development challenges as well as the new and emerging challenges in developing countries, in particular in LDCs and other vulnerable developing countries.

9. It is troubling to note the OECD estimates that DAC countries will fall short in US\$ 21 billion from their 2010 Gleneagles commitment. As a group, developed countries are still far from achieving the longstanding goal of mobilizing 0.7% of GNP in ODA. In order to meet agreed commitments and targets, the G77 and China reiterates the call that developed countries establish clear and transparent timetables within their national budget allocation processes to reach the level of at least 0.5 per cent for ODA by 2010 and 0.7 percent by 2015, at the latest. Notwithstanding the positive

impact of debt relief on development, it should not be counted as part of the ODA contribution. The full implementation of these commitments will substantially boost the resources available to push forward the international development agenda and to assist developing countries to mitigate and more effectively respond to the crisis in accordance with their national strategies.

10. The G77 and China concretely proposes that donors and recipients, in conjunction with non-governmental organizations and civil society, undertake through a monitoring mechanism, a comprehensive review of the ODA framework, with a view to promoting better coordination, avoiding fragmentation and duplication of activities, ensuring predictable flows over multiple year periods, and allocating adequate resources to the countries most in need, especially the least developed countries and countries in special situations. In addition, donors and recipients shall jointly assess ODA priorities to increase assistance to developing countries to enable them to mitigate and more effectively respond to the crisis in accordance with their national strategies.

Trade

11. International trade can be an engine for development and sustained economic growth. Over the last year, however, the motor of trade has stalled and set into reverse. According to the WTO, the volume of world trade experienced its worst decline since World War II, contracting by approximately 12.2% in 2009. In January 2010, world merchandise trade volumes were still significantly below the peak level attained in April 2008. The decline in trade has severely impacted on developing countries, including through the fall in exports and loss of export revenues, restricted access to trade finance, reduced export-oriented investment. In some cases, it has also led to balance of payment problems.

12. In order to fully harness the potential of trade it is important to uphold a universal, rules-based, open, non-discriminatory and equitable multilateral trading system that contributes to growth, sustainable development and employment, particularly for developing countries. In this context, developed countries should resist all protectionist measures and tendencies, affecting developing countries, including agricultural subsidies and non-tariff barriers to trade, and to rectify any trade distorting measures already taken, recognizing the right for developing countries to fully utilize their policy space consistent with WTO commitments.

13. The lack of progress in the negotiations of the WTO Doha Round is particularly troubling. Developed countries should demonstrate the flexibility and political will necessary for breaking the current impasse in the negotiations, with a view to concluding the Round as soon as possible to achieve an early and development-oriented outcome. The early conclusion of the Doha Round would provide much needed impetus to international markets, contributing to consolidate the recovery and establish the foundations of sustained growth. The successful conclusion of the Round would be the single most important contribution that developed countries could make in the short-term to promote development. It could yield a double dividend to the world economy in the form of a stimulus package and much needed structural reform, directly contributing to the achievement of the MDGs.

Private Capital Flows

14. Private international capital flows, especially foreign direct investment (FDI), can be an important complement to national and international development efforts. However, as a result of the crisis, capital flows to developing countries drastically declined last year. Despite a recent surge in portfolio investment to developing countries, capital flows for 2009 remained 20 percent below their 2008 levels and well below their peaks in 2007. In the case of FDI, flows are projected to decline

from their peaks of 3.9 percent of developing country GDP before the crisis to around 2.8 to 3.0 percent of GDP in the forthcoming years. Furthermore, international capital flows to developing countries remain excessively concentrated in few large markets.

15. As a result of the crisis, as well as of tighter financial regulations, the cost of capital to developing countries is projected to be higher, on average, in the medium-term, than before the crisis. The tighter availability of funds is expected to affect economic prospects of developing countries, depressing their potential growth by as much as 0.2 to 0.7 percentage points annually, for 5 to 10 years.

16. While recognizing that international capital flows depend largely on decisions taken by private actors, the G77 and China calls on developed countries to take measures to facilitate and redirect such flows to developing countries on a more predictable, stable and equitable manner. In particular, developed countries should take concrete steps to avoid financial protectionism and rectify any measures adopted in that regard during the crisis, including subsidies to ailing industries and sectors. Additional efforts should be taken to enhance private flows in support of development and maximize the development impact of FDI, particularly with regard to linkages with domestic production activities, transfer of technology and research and development activities.

17. For many developing countries, migrant remittances remain a significant source of international financing, contributing to meet the external financing gap and promoting growth and development. Remittances have been severely affected by the crisis. After reaching their peak level in 2008, remittances decreased by 6.1 percent last year. Given their positive role, developed countries, in cooperation with developing countries, should adopt measures to facilitate remittances and reduce transaction costs.

18. As highlighted in the Outcome Document, Member States should explore ways to strengthen international cooperation in the area of international migration and development, in order to address the challenges of the current economic and financial crisis on migration and migrants. Unfair and discriminatory treatment of migrant workers should be resisted and unreasonable restrictions should not be imposed on labour migration. In light of the important contribution of migrant workers for both countries of origin and destination, the G77 and China proposes that the Secretary-General, in cooperation with the International Organization on Migration, to develop a mechanism, to be considered and adopted by Member States, to follow up with concrete measures on the attainment of the objectives set forth in paragraph 27 of the Outcome Document.

Innovative Sources of Financing

19. The economic and financial crisis has demonstrated the importance of scaling up development finance from traditional sources. It has also highlighted the positive contribution of innovative mechanisms of financing to assist developing countries to mobilize additional resources for financing for development on a stable, predictable and voluntary basis. Such financing should be disbursed in accordance with priorities of developing countries, should not substitute traditional sources, and should not unduly burden them. While recognizing the considerable progress in innovative sources of financing for development, it is important to explore the possibility of scaling up present initiatives and developing new mechanisms. As work is expanded, priorities should remain focused, namely, on providing additional, stable and supplementary resources to traditional development financing.