STATEMENT BY H.E. AMBASSADOR JUNE PERSAUD OF GUYANA ON BEHALF OF THE G77 AND CHINA ON THEME 6: INNOVATIVE SOURCES OF FINANCING BEFORE THE AD HOC OPEN-ENDED WORKING GROUP ON FINANCING FOR DEVELOPMENT

New York, 6 April 1999

Mr. Chairman,

The consideration of the question of innovative sources of financing for development has had a rather chequered history in the UN. While there is no dearth of ideas on the subject, it is fair to say that we have generally shied away from a serious consideration of the feasibility of the various proposals that have been put forward. It is our hope that the current process might engender a more objective and open approach to examining the possibilities on offer by innovative sources and mechanisms of financing. To that end the G77 and China wishes to highlight but a few of the potential sources which might usefully be explored in the spirit of partnership.

One such is represented by the resources of domestic and international financial and capital markets. These have undergone profound changes in size, structure and interaction among themselves during the last decade. This has been primarily driven by deregulation which in turn has enhanced the scope of market forces, resulting in the globalization and integration of capital markets, intensification of operations and increase of the number of institutions in foreign centres. Furthermore the rapid growth of international financial flows has outstripped the growth of trade and direct investments. The size and influence of financial markets have also increased markedly. Advancements in information technologies have occasioned an explosion of new and marketable financial instruments. In addition, greater institutionalization of savings in almost all developed countries, channeled through institutions such as pension funds and mutual funds, has provided a base for the rapid expansion and greater sophistication of the securities markets, and for the rapid growth of portfolio flows internationally. The potential of these resources for supporting development is far from being fully explored.

Undoubtedly, a major key to accessing these resources for financing development lies in the creation of an appropriate regulatory environment, as well as the mechanisms and instruments that would enable developing countries to tap the potential of the global capital markets and to effectively manage associated risks. This will need to be accompanied by the strengthening of the prudential financial regulatory environment at the international level. Furthermore, it will require sufficient improvement in and promotion of domestic capital financial markets. A major setback, however continues to be the preference of institutional investors for portfolio and short-term investment especially in developing emerging markets. Not only has this diminished the opportunities for developing countries to benefit from globalization of capital and financial markets but it has also rendered them prone to financial crisis. In addition, most developing countries lack the infrastructure and institutional capacity to take advantage of the opportunities that exist.

Needless to say, these factors also constrain the development of domestic capital markets, limiting the capacity of developing countries to mobilize domestic and foreign resources. In addition to an enabling policy environment, both domestic and international, a significant investment in technical and financial assistance would be necessary to create and/or strengthen financial infrastructure and capacity to introduce new mechanisms and instruments.

It should be borne in mind that the growth and integration of financial markets will necessitate adequate international regulation and contingency arrangements such as those already implemented by the IMF quota increase and the new arrangements to borrow. Such arrangements should become a stable feature of the new global financial architecture to counter the immediate negative consequences of financial crises, including their social impact.

The multilateral financial institutions, in particular World Bank, could play an intermediary role in providing technical assistance to developing countries to facilitate their access to international capital markets through guarantees and insurance of projects as well as facilitating the exchange of information on securities and bond offering of developing countries in the international financial and capital markets. Cooperation among regional securities markets and national markets could be useful as a complement to international capital markets.

Turning to the question of public-private partnerships a number of measures and mechanisms could be examined. These include the following: exploration market-driven approaches to financing small size infrastructure projects; partnership between the public and private sectors through leveraging private capital with public funds through risk guarantees, insurance, an/or project cost-sharing; privatization of publicly owned assets and companies; increased efforts to develop local capacity such as micro-credit lending and developing local bond markets; measures to integrate the informal economy into the formal economy through fiscal and monetary reform; joint ventures, development bonds with options to be converted to equity; non-money contribution of private sectors; mobilizing private resources; build-operate-transfer under public/private partnership; public-private-NGO collaborations; creation of Public-private funds as an equity investment by governments in new ventures and joint companies; making government equity a key tool in capital creation; and review of mechanisms for development financing for government projects.

The Bretton Woods institutions together with developed country Governments, could foster an enabling environment at the global level and, through the extension of guarantee and insurance measures, promote public-private partnership at the international level. Participation of domestic public and private sector in projects financed by external resources; new investments for new projects or for promotion and expanding existing production processes in particular through buy-back mechanism; facilitating participation of private and public sectors of developing countries in private and public construction projects in developed countries; creation and promotion of mechanisms and measures to provide export credits for export of goods and services from developing countries could be among other measures for strengthening and promotion of public-private partnership at the international level. In such arrangements, there is need to ensure an appropriate sharing of the costs of a crisis among both borrowers and lenders and the public and private sectors as well as safeguards against the transfer of risks.

Yet another area to be considered is that of taxation and charges. A number of ideas have been espoused in this regard. These include cross-border payments taxes; carbon taxes; conservation tax and patent rights to protect bio-diversity; uniform nationally applied global taxes on foreign exchange transactions to regulate capital flow, including Tobin tax; tax on financial transactions; tax on capital flows; brain-drain tax; tax on all international transactions could be considered as alternative taxation. These ideas may become even more important as the role of the private sector and multinational corporations in the national and international economy continues to expand.

Other ideas that remain on the table include the much touted peace dividend and more recently the development dividend. It has also been suggested that a debt (service and principal) for poverty eradication swap could release a major part of domestic resources for social development. The international greenhouse gas emissions trading system (IGGETS) and the design and implementation of the Clean Development Mechanism (CDM); joint implementation and other environmental mechanisms and measures address environmental concerns.

Many other ideas and proposals abound on this issue, some of which are contained in the index report. These are but an indicative listing of the many ideas and instruments that need to be explored in order to maximise resources for development. While opinions may differ on their merits or demerits, the G77 and China is of the view that many warrant serious consideration in the current process. We stand ready to engage in the continued search for innovative sources and mechanisms of financing for development.

Having said this, Mr. Chairman, we wish to acknowledge the statement just made by the EU and in particular the view expressed that the innovative sources need to be systematically examined. We also share the view that innovative sources should not be substitute for official development assistance.

I thank you.