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## INNOVATIVE FINANCING FOR DEVELOPMENT

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The Monterrey Consensus (MC), in 2002, represented a notable progress, by (i) acknowledging the biases and failures that the international financial system implied for development (for growth as well as equity), and (ii) offering a set of relevant and sensible proposals that the world was committing to implement gradually.

There are excellent reviews of progress and step-backs since 2002, particularly made within the system of the United Nations. So, here I will focus only in some selected issues.

In this brief note we discuss, in section 1, selected issues among those covered by the Monterrey Consensus (MC); then, in section 2, we review the developments since the MC, including selected new issues that have arisen. Some recommendations for consideration in the Doha Review Conference are presented in section 3, focused in innovative sources of financing.<sup>1</sup>

### 1. THE MONTERREY CONSENSUS: ASSESSMENT AND FOLLOW-UP

#### a) A selective assessment

The Monterrey Consensus represented a substantive step forward in the international agenda for development. It complemented the international agreements on development agenda, included the MDGs, since the attainment of these goals is closely related not only to aid and domestic social policies, but as well to the economic performance of developing economies.

The MC came to recognize the crucial role of investment and its financing for economic growth, in times in which there was a strong fashion in economics toward an across-the-board liberalization, including liquid financial flows. The fashion had taken as given that physical capital did not count much for development; as well, the fashion also held the belief that the then growingly released financial flows contributed to macroeconomic stability and development.

The MC implied a solid move toward a pragmatic approach. It stressed the need of sustaining “adequate” levels of productive investment, which actually needed to become much higher in most developing economies for achieving development convergence with the richer countries. Increased productive investment required a comprehensive financial development. Particularly, a significant strengthening of long term segments of capital markets, and the creation or completion in domestic capital markets of segments geared to reach small and medium firms (SMEs) and other excluded sectors. In fact, concerned about equity (and the fulfillment of the MDGs), in several paragraphs the MC repeatedly underlined

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<sup>1</sup> We have considered, principally, the following documents: (i) the *Monterrey Consensus on Financing for Development* (3/02), (ii) the 2007 Report of the Secretary-General on the Follow-up and implementation of the Consensus (8/07), (iii) the Summary by the President of the General Assembly of the High-Level Dialogue on FfD (11/07), and (iv) the 2008 Report of the Committee for Development Policy.

the essential role that ought to be taken by the creation or completion of channels for financing to SMEs (for instance, par.17, 18 and 24). This point represented a crucial link between economic growth and equity, by spreading toward mid- and low-income agents the capacity to access to markets more effectively.

This approach pro-comprehensive economic development, included the issue of migrant remittances. Beyond the more traditional proposal of reducing the costs of remittances, the MC (par. 18) advanced the innovative view that remittances could serve to “securitize” loans for development-oriented investments by recipient families. This is one the components that would comprise a significant development of micro finance.

Consequently, the countries signing the MC “invite banks and other financial institutions, in developing as well as developed countries, to foster innovative development financing approaches.” (par.23). In that line, they commit to “support new public/private sector financing mechanisms” (par.24).

The MC highlighted the relevance of “sound macroeconomic policies”, but again with a pragmatic approach (par. 14). Beyond the due concern for price stability and fiscal balances, it stressed that they should include, additionally, concern for full employment, poverty eradication, and sustainable external balances, the latter requiring “an appropriate exchange rate regime”. Returning to “adequate levels of productive investment” (par. 10), the MC agreed that there was need of consistent macroeconomic policies. Evidently, “consistency and soundness” must be understood in the sense underlined in this paragraph.

Several paragraphs are devoted to discuss financial crises. The MC gives “priority to identifying and preventing potential crises,... with particular attention to short-capital flows” (par. 55). It was recognized that domestic macroeconomic balances can be destroyed by depressed export revenues (par. 37) and by contagion of financial crises. Then, “underlines the need to ensure that the international financial institutions, including the International Monetary Fund, have a suitable array of financial facilities and resources to respond in timely and appropriate way”(par. 59). Immediately, it is stated that “the need for special drawing rights should be kept under review”. The IMF Compensatory Financing Facility and the Contingent Credit Line are mentioned as renewed and valid safeguards. But, it is added that the signing nations are decided to “continue to assess its effectiveness” (par. 37).

It is stated that even if a fair burden-sharing is built and unsustainable debts are restructured in a timely and efficient manner, “that mechanism should not preclude emergency financing in times of crises” (par. 60). More precisely, it should have stated the need of compensatory financing to avoid or mitigate crises, in order to be consistent with the wish to prevent crises.

Finally, I mention an additional innovative source of financing, that is the agreement to strengthen tax cooperation, and the fight to money laundering, illicit flows, financing of terrorism, and corruption (par. 64-65). This assertion implies that achieving transparency and cooperation contributes to enhanced efficiency of public expenditure in developing nations and to increased tax revenue to finance domestic development and the fulfillment of the MDGs.

## **b) The follow-up and implementation**

There have been substantive annual follow-up reports by the Secretary-General of the UN, which cover each of the six chapters of this world agreement on Financing for Development (FfD). As well, the General Assembly has held High-level Dialogues on FfD. Here we examine some aspects that we want to underscore of the sixth Follow-up Report of the SG (August 2007) and of the Summary presented by the President of the UNGA on the Third Dialogue (November 2007). Again, I will make a selective review as inputs for the discussion on innovative sources of financing, on which we want to focus in sections 2 and 3.

The follow-up reports “considerable advances in some areas, and modest progress, stagnation and retrogression in others”, within “widespread concerns that the fruits of development and growth are not fairly distributed and ...a growing trend towards a higher concentration”.

The Report makes use of the stock of newer research and understanding of issues covered by the MC. Particularly, goes further than the MC, in a complementary direction, with a consistent policy-oriented approach, directed to achieve the purposes exposed in the MC. A most relevant issue, in my view, is the progress made in this Report on the understanding of macroeconomic matters. It moves decidedly in the direction of a growth-oriented macroeconomic approach, as the basis for attracting both local and foreign productive investment in developing countries (par. 17-20).<sup>2</sup> It stresses the relevance of “undertaking employment-oriented macroeconomic policy”, including both the employment of labor and capital (that is, the search for reduced output-gaps, what we take below, in section 2).

In a notably clear statement, writes “Countries should seek to expand their tools for sound macroeconomic policy, including effective capital flow management...and macroprudential mechanisms, the establishment of countercyclical funds,... and the enhanced use of their tax systems to manage booms and busts.” This paragraph (number 20) represents, in my view, an outstanding pragmatic, down-to-earth, progress in a policy-oriented direction, taking stock of recent research and understanding of the evolution of international financial markets and of the shortcomings of the macroeconomic approaches more in fashion.

With respect to those markets, the Report stresses the need “to provide stronger oversight of financial market activities”. “Perhaps most urgently, international and national authorities should collaborate to strengthen the transparency and regulation of hedge funds and derivative instruments.” (par. 56). The stress posed in this Report came before the explosion of the sub-prime crisis and the intensification of speculative ingredients in the climbing of the prices of several commodities.

The Report goes to underline the case “of countries internationally perceived as successful globalizers” for which “managing the boom period of capital flows is critical. In this respect, countercyclical regulations and instruments should be given utmost consideration.” (par. 54). A sharp distinction is made between short-term flows and long-term investors. It has become growingly evident that the latter tends to have a close association with productive investment, while short-term financial flows have a very loose association with that sort of investment. It is emphasized that the effects of capital inflows on economic growth also depend on the quality of domestic intermediation and of exchange rate policy; these two factors, are repeated several times (for instance, par. 104). This reiteration is welcome, since the approaches in fashion have failed dramatically: intermediation has been biased toward financing consumption and existing assets overpricing and has been quite incomplete or weak for investment projects, while inflows have tended to lead to exchange rate outlier prices. Consequently, there is need, in and for developing economies, to be able to adopt active exchange rate policies that are consistent with the evolution of domestic productivity, while focusing financial reforms in the development of domestic long term and non-traditional segments.

The Report considers several issues related to the international financial architecture, and its slow progress or step-backs as compared to other globalization forces.<sup>3</sup> I want to mention only one of the several issues taken, which is the fact that “the international

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<sup>2</sup> The macroeconomic approaches are examined in *World Economic and Social Survey 2005: Financing for Development*, United Nations, New York. An analysis on “financieristic and real” macroeconomics is developed in R. Ffrench-Davis, *Reforming Latin American Economies: After Market Fundamentalism*, chapter II, Palgrave, New York, 2006.

<sup>3</sup> The Report underlines several other issues, such as environmental taxes that contribute to mitigating the destruction of the environment and provide financing for research and adaptation; and resource-use taxes.

community has not yet succeeded in developing some broadly acceptable form of contingent liquidity... to support countries that face potential capital account crises” (par. 119). Just lines before, (par. 118) it had been mentioned the need of “a comprehensive reform of the international monetary system”, particularly with respect to international reserve currencies. In section 3 we move forward on these issues and the link between them.

The MC devoted one full chapter to mobilizing domestic funding for development. As said above, introduced the issue of illicit flows and tax evasion. The Report goes further with a discussion on “expanding fiscal space”. In fact, a rather standard feature of developing countries is a notably low tax burden; as a consequence, they exhibit a limited capacity to finance infrastructure and investment in human capital, and to care for the efficiency of public expenditure. Several well argued paragraphs are devoted to tax and budgetary matters (par. 26-36). The Report returns, by its end, to this issue with substantive proposals (par.124-26), focused in the role that could be played by the new (or reformed) UN Committee of Experts on International Cooperation in Tax Matters.

Finally, I would like to underline the explicit appearance in the Report of “the innovative sources of finance... largely brought into the mainstream” (par. 93-96). It will be recalled below that at the 2005 World Summit, heads of State and Government recognized the value of developing innovative financing. Actually, in section 2 some of the progress achieved is summarized.

## **1. REVIEW OF DEVELOPMENTS AND NEW ISSUES EMERGING**

Several innovative forms of financing have been proposed, to help countries to implement equitable social and economic policies, seeking to bring about a “globalization with a human face”. In recent years, since the MC was achieved, in an encouraging number of cases there has been concrete action; in other cases, there has emerged solid technical support that eventually contributes to generate political support for future action.

The developing world needs more resources for productive and social development. It needs international commitments to ensure that people gain from the several potential benefits of globalization, rather than being mere passive victims of its negative features. Efforts are needed to ensure that a growing number of people become “winners” in terms of social and economic well-being.

Decided to contribute to the fulfillment of the internationally agreed MDGs and the MC on Financing for Development, in 2004 a group of countries of the North and the South launched a collaborative effort. A partnership for development and solidarity was geared to identifying innovative sources of funding, to help promote public goods and boost economic development, discouraging public “bads” such as hunger and poverty. The participating countries designed a menu of options, rather than a single model, enabling different countries’ preferences to be reflected.

The Presidents of Brazil, Chile and France, along with the Secretary-General of the United Nations, which were subsequently joined by the Heads of State of Spain, Germany, Algeria and South Africa, launched Action against Hunger and Poverty (H&P). Funding raised with innovative financing mechanisms was to be used to set up projects that would facilitate the achievement of the Millennium Development Goals. The initiative received strong support from the United Nations and a Technical Group (TG-7) was appointed by the respective Heads of State of the member countries. This North-South partnership identified a series of potential innovative sources of financing, as shown in table 1.

**Table 1**

INNOVATIVE SOURCES OF FINANCING FOR ACTION AGAINST HUNGER AND POVERTY:  
MENU OF OPTIONS IDENTIFIED BY THE TECHNICAL GROUP (TG-7)

- Solidarity levies on air travel
- Reduction of tax evasion, particularly via tax havens
- Increasing the benefits of migrants remittances (linking with micro-credit)
- Taxation on currency transactions (CTT)
- Taxation of arms trade
- International Financial Facility (IFF)
- Special Drawing Rights (SDRs) for counter-cyclical financing of development
- Voluntary contributions through credit cards
- Socially responsible investing or “ethical funds”
- Solidarity lotteries

The Menu was presented at the UN in September 2004, where it received the support of a broad number of nations, encouraging further work and its delivery in the World Summit of September 2005, with occasion of the review of the progress made in the road of the MDGs to 2015. The 2005 New York Declaration on Innovative Sources of Financing for Development was prepared by the H&P Initiative. Was seeking to contribute to steer the course of globalization away from dehumanization and pro-cyclical, while raising awareness of the issues and ensuring that speeches made at international summits are followed by concrete actions. It was endorsed by 79 Heads of State. A concrete action was announced during the Summit, as summarized below.

A wider group of countries (including the seven named above) was set up in 2006. The Leading Group on Development Solidarity Levies (LCS) currently comprises 54 countries from both North and South, with very different levels of development. All these countries have expressed a willingness to identify and apply pro-development levies, to contribute either by generating funding or by discouraging “public bads”, such as tax evasion and financial crises.<sup>4</sup>

These two groups of nations share a comprehensive approach that seeks a globalization of solidarity; that is, a globalization with a human face, which can enable development benefiting all countries, and their mid- and low-income people. The approach is pro-development and pro-equity, both in the source of funding and in the use of resources.

The partnership has made tangible progress, with the proposals presented in the World Summit, held in September 2005. A proposal was put forward to apply a levy on airline tickets. The pilot project on the air-ticket solidarity contribution was officially started in 2006, with proceeds going to the fight against HIV/AIDS, tuberculosis and malaria. Chile and France (since March and July 2006, respectively) were the first countries to introduce boarding fees actually earmarked for this solidarity initiative.

The project, known as UNITAID, was set up by Brazil, France, Chile, Norway and the United Kingdom and is supported by the Clinton Foundation and the Gates Foundation. Thirty four countries are presently members of UNITAID and are contributing to the financing of its activities, and several other are considering applying such a levy or using other sources of sustainable financing for this purpose.

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<sup>4</sup>The LCS has addressed several issues covered by the H&P Initiative and some additional ones. The menu includes a review of the solidarity levy on air travel, implementing Special Drawing Rights as financing for counter-cyclical mechanisms to deal with financial and trade instability in developing countries, introducing a moderate tax on currency transactions, stemming illicit capital flows, enhancing the potential role of the carbon market, linking of workers remittances to micro-credit in recipient households, enhancing the combat against tax fraud and tax evasion, implementing a digital solidarity contribution and furthering the Digital Solidarity Fund.

UNITAID is an international drug purchase facility that was placed within the World Health Organization (WHO) in order to avoid duplication in administrative costs. The fact that the service avoids bureaucracy and cost duplication is a key factor and one that must be at the forefront in the design and identification of sources and uses of financing. There are too many funds or institutions without enough funding.

The three pandemics targeted are major causes of hunger and poverty in the households they strike. All three are determining factors in the advances and setbacks of the development process. In addition to fighting these diseases directly, UNITAID also aims to improve the functioning of the markets of drugs, in order to lower the cost and raise the quality of therapeutic drugs, not only for the direct beneficiaries but also for developing countries in general. In this dimension it benefits poor as well as mid-income countries.

This innovative source of financing has the following advantages:

(i) Air passenger transport is an activity that has benefited greatly from globalization; (ii) Generally speaking, air travel is a comparatively under-taxed sector (in terms of fuel and VAT, for instance); (iii) The air transport levy tends to constitute progressive taxation, as air travellers usually belong to the upper income brackets, and are therefore fairly good candidates for sharing their benefits with the rest of the world; (iv) It is an easy to collect national levy, involving negligible bureaucracy in cases where airport fees or ticket taxes are already in force.

The former International Facility (IFF) proposed by the United Kingdom opened the way to another pilot program. In November 2006, the International Finance Facility for Immunization (IFFIm) was founded under the leadership of the United Kingdom with financial backing from eight countries (Brazil, France, Italy, Norway, Spain, South Africa, Sweden, United Kingdom). The IFFIm is expected to fund immunization programmes for children and strengthen health systems in the 70 poorest countries around the world. Future legally binding grants from participating donor countries constitute the financial base for an IFFIm bond issuance programme that will take place over 10 years.

In February 2007, a pilot Advance Market Commitment (AMC) for a pneumococcal vaccine was launched at the instigation of Italy and with the financial backing of five countries (Canada, Italy, Norway, Russia and the United Kingdom) and the Bill & Melinda Gates Foundation. This AMC aims to accelerate the development of new pneumococcal vaccines specifically targeted for developing countries by guaranteeing to subsidise their future purchase, if they are successfully developed and there is sufficient demand on the basis of financial commitments from donors.

Several concrete initiatives have been taken to develop more accurate data on migrant remittances, and promoting the exchange of information and best practices to reduce transmission costs. They also aim to “securitize” such remittances, seeking to foster development by promoting recipient families’ access to financial and banking institutions. Cooperative efforts are being made by migrant communities, local and central governments in countries of origin and destination, banks, transfer operators and civil societies.

### **3. TOWARD THE DOHA REVIEW CONFERENCE**

Here are two selected issues on which there is progress made in the technical design, feature pro-development attributes, and recent events enhance their priority.

#### **a) Fighting tax evasion internationally**

Hunger and poverty are also associated with weak tax systems, where weakness is partly attributable to tax evasion by means of tax havens. Consequently, an important innovative source of financing for development could come from the combat against tax evasion. The issue has received renewed support with the explosion, in developed economies, of

significant cases of tax evasion under the umbrella of secrecy and tax havens. Although evasion and illicit flows are a global concern, it affects more severely the developing countries depriving them of essential resources which could finance public services and investment. The LGS has established a working group, led by Norway that is developing proposals for action

It is a matter of serious concern that a large proportion of the profits from the financial flows and capital gains of globalization are untaxed or under-taxed. Tax havens are one means by which such inequity is perpetuated. Tax evasion, additionally, it is intermingled with money laundering, corruption and financing of terrorism: three pervasive “public bads”.

Tax evasion has an ethical dimension, as it penalizes legitimate, transparent, open and non-secretive investors who duly pay their taxes, while benefiting those who engage in practices such as tax avoidance, money laundering, financing of terrorism and other activities funded with money from illegal practices or allowed by tax loopholes or policy failures. Tax evasion is notably unfair with honest tax payers. Permissive policies in the face of booming financial flows have allowed this flaw in globalization to develop further. It is well known that a substantial share of these resources, leaked from the tax systems of both North and South countries, are sheltered in tax havens.

For the sake of national ownership, developing countries should be able to strengthen their tax systems by adopting measures to prevent evasion perpetrated through tax havens. The recently reformed Committee of Experts on International Cooperation in Tax Matters of the United Nations can play an important role in this respect. Also the Organisation for Economic Co-operation and Development (OECD) has been working on the issue of tax evasion and tax havens, though the progress achieved would be limited to members of the OECD. Collaboration between both should be encouraged with a view to taking concrete steps to fight international tax evasion, and to contribute in improving the tax systems of developing countries wishing to do so.

Effective solutions to this problem require collective measures. There are several initiatives that could be explored, such as a mandate for the United Nations Committee of Experts on International Cooperation in Tax Matters on international tax evasion, and the preparation of a Code of Conduct on this issue. A strengthened secretariat would be required, with full political support.

## **b) Slow-down in world economy and uncertainty**

The volume of financial flows has grown with remarkable speed in the past couple of decades. The magnitude of purely financial flows overshadows all other international transactions; whether they are of ODA, Greenfield FDI, trade credit, or migrant remittances. One way of measuring their weight is by the volumes traded daily in the world's foreign exchange markets. They amount to about 40 times the value of world exports (or imports) of goods and services. That is, a ratio of 40 to one. Naturally, additionally, there are other international financial flows that do not go through those markets because they are conducted in the same currency in both sides of the flow.

This highly disproportionate ratio is due to the fact that the same funds can cross national frontiers several times a day, mostly with no connection to real trade. This has advantages from the viewpoint of those wishing to operate in a liquid market where it is always easy to buy and sell, but it creates macroeconomic risks for the rest of the economy, which employs the vast majority of workers and entrepreneurs and generates the overwhelming share of GDP.

Actually, financial markets frequently experience “mood swings,” affecting expectations of the prices, for example, of the stock markets and the exchange rate; as a result, funds which at a particular moment were flowing towards a certain geographical market will suddenly start moving to another. Consequently, it can happen overnight that a developing economy which had an oversupply of foreign currency abruptly falls into a sharp

dryness. Such “mood swings” in financial and exchange markets are felt very strongly in the real economy: that is, in output, employment, profits and tax revenues. As a matter of fact, developing economies are thrown into recessive macroeconomic disequilibria, as was the case with the East-Asian crisis, in many emerging economies.

Crises led by external shocks affect the situation of businesses, which experience sudden falls in the demand for their products. Consequently, this affects employment: for example, the average unemployment rate in Latin America, under the contagion of the East-Asian Crisis, rose by three to four points of the labor force from 1997 to 1999-2003. Thus, crises leave the producers of wealth –entrepreneurs and workers– in depressed and weakened situation. In fact, usually emerges an output-gap between potential GDP and actual GDP. This gap implies a drop in actual total factor productivity (TFP) and foregone GDP, for ever, and a dynamic deterrent to investment in physical and human capital. That is, the present and the future are worsened, thus weakening development and the achievement of the MDGs.

The Asian Crisis and its broad contagion effects encouraged a fruitful analytical and empirical progress. That is reflected in the contents of the Report and the Summary.

The Initiative for Action against Hunger and Poverty and the Leading Group on Solidarity Levies have examined proposals for strengthening counter-cyclical mechanisms and their financing with counter-cyclical issues of SDRs. The Committee for Development Policies has made convergent proposals in its 2008 Report. What follows, is mostly based on the latter.

In brief, external shocks, transmitted through the trade balance and financial external accounts, usually have large negative economic and social effects on the developing economies. The initial effects on key macroeconomic and social variables feed across the entire economy, through reduced government spending and private investment, lower wages, higher unemployment and therefore greater poverty. Thus, producing negative social and economic effects. The development potentiality of these countries becomes underutilized. That is a huge waste of resources. Consequently, adverse economic shocks can impede or delay progress in achieving the MDGs.

Therefore, there is the need for a development-friendly international financial architecture, including adequate counter-cyclical official facilities to low- and middle-income economies when they become adversely affected by external shocks, arising from the international economy, particularly trade and financial shocks, as well as worsening natural disasters associated to climate change.

There is a great urgency to improve existing compensatory financing mechanisms and/or design new ones where gaps exist, as recorded in IMF research and by the Independent Evaluation Office reports. This urgency arises, first, from the fact that the global economic outlook has turned gloomy in 2008-09 and that developing countries are likely to be highly vulnerable to a slowdown in developed economies. Second, the need for action has become more pressing given major increases in the price of oil and foodstuffs, which have affected countries that are net importers of those commodities and have already provoked a great deal of social discontent in several nations.

In recent years, some countries have built cushions of reserves and fiscal resources as a buffer (or “self insurance”) against external shocks. However, high levels of reserves carry large burdens, mainly in terms of the opportunity costs of productive investment foregone and direct financial losses stemming from relatively low interest earnings on reserve assets. The decline of the United States dollar has further added to financial costs of holding reserves; these still are held mostly in dollar-denominated assets.

Improved official compensatory flows can play a crucial role in avoiding unnecessary, inefficient, costs to developing countries by reducing the need to hold such high levels of

reserves and – more importantly – by helping to avoid recessive adjustment; that is, adjustment that goes **beyond** that required for recovering real macroeconomic equilibria.<sup>5</sup> Recessive adjustments, which have been quite frequent, lead to underutilize present potential development and to discourage its future enlargement. In this regard, improved compensatory flows can potentially be a very effective mechanism to protect economic growth and incomes of poor people in affected countries, now and in the near future.

There are currently a number of major compensatory financing mechanisms, which are, however, either limited in coverage and volume, too narrowly defined, access comes too late or are subject to inadequate conditionality, given the nature of the external shocks.

In view of the worsening global economic outlook, its implications for developing countries and the inadequacy of existing compensatory finance instruments, it becomes urgent the need for a reformed compensatory financing architecture to provide official liquidity to developing countries suffering the negative impact of external shocks. To be effective, the liquidity must be “sufficient, disbursed rapidly and just conditioned to the presence of external shocks without additional conditionality”.

How to finance a significant improvement in the volume and quality of compensatory financing? Considering the arguments in favor of a gradual and careful move toward a global currency of reserves, the world should reinitiate issues of Special Drawing Rights (SDRs). A reform should allow the IMF to direct them to finance a significant increase in the availability of compensatory financing. The present prospects of downward adjustment of economic activity and financial turmoil represent an appropriate context for a new allocation of SDRs, with a counter-cyclical role, with a view to cautiously and gradually progress in the direction of a truly international currency of reserve. In this regard, the process of allocation of 22 billion SDRs, approved by member countries of the IMF in 1997, by now ratified by 133 countries but still being short of the minimum of 85 per cent of the quotas of the Fund required for becoming into effect, should be urgently completed.

The reform of the existing compensatory financing mechanisms of the IMF should be significantly simplified because existing schemes are too numerous and complex. All compensatory facilities should have the attributes of speedy disbursement, scale fully proportionate to the external shocks, and low conditionality to maximize the beneficial impact on the recipient countries.

More generally, there is an urgent need for restructuring the international financial architecture to respond to profound changes in the global economy. Globalization has grown imbalanced. As the Report of the Secretary General underlines, reinforced by **many** speakers in the Summary of the 2007 President of the UNGA, instability is an outstanding, but pernicious feature, of the present global financial architecture. The voice of developing countries must be considered, the prevention and management of financial crises must be addressed seriously (including our proposal of reformed countercyclical mechanisms). A tougher challenge, is to actually generate effective conditions for a redirection of potential savings toward development. First, generally, international finance has become under-taxed, at the expense of the real economy, particularly the non-mobile factors of production; the

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<sup>5</sup> A crucial macroeconomic equilibrium is to actually use potential or installed GDP; for sustainability, that requires “right macro-prices”. I want to stress that I am referring to “well-behaved” economies or that already have corrected their main imbalances. Evidently, economies with extremely appreciated exchange rates and large external and fiscal deficits (after duly counting revenue resulting from international solidarity), need to generate significant drops in aggregate demand and large devaluations. South Korea and several Latin American countries (LACs) were rather “well-behaved” economies or had corrected the exchange rate when they were experiencing recessive adjustment in the late 1990s (in the sense I define above, with actual GDP sharply below its potential GDP). Most LACs, including Brazil and Chile, remained with a large output gap for five or six years.

currency transactions tax would contribute to improve finance equity. Second, the approaches in fashion, of across-the-board opening of the capital accounts, exhibit a strong bias favoring high income producers but as well speculative short-termist agents; the latter constitute the new rent-seeking actors. As stated, forcefully in the SG Report, there is need to reform rules and institutions that imply a redirection of funding to usually excluded sectors, such as SMEs and micro producers. Third, there is growing evidence that greenfield FDI flows contribute directly to productive investment and fosters development; on the contrary, short-term financial flows exhibit a weak link with capital formation during booms, and are a common source of busts and of significant deterrents to productive investment. The call of the MC and the Report of the SG for enhancing the stability of financial flows has become even more relevant under the present financial turmoil.

We need a sharp development-friendly reform of the financial system, and the present architecture is far away from that goal.