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United Nations

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(UNDP) AND CHAIR OF THE UN DEVELOPMENT GROUP****TO THE INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE (IMFC)****Washington D.C., 16 April 2011****Economic recovery continues: challenges remain**

The global economy is recovering from its worst economic crisis since the Great Depression. The United Nations projects that recovery will continue during 2011 and 2012, albeit at a slower pace. Major challenges, however, remain and the recovery is uneven. Emerging economies are its main source, and some of them risk overheating. Economic growth and job creation in advanced economies overall remains slow and fragile. At the forecast rate of recovery, it would take at least five years to return to pre-crisis levels of global employment and regain the more than thirty million jobs lost during the crisis.

Many developing countries, particularly in sub-Saharan Africa, have returned to useful levels of growth. Recent increases in food and fuel prices, however, also threaten to undermine political and economic stability in vulnerable countries. The

World Bank estimates that rising food prices may have pushed 44 million more people into extreme poverty between June and September 2010.

Since unrest erupted in the Middle East and North Africa at the beginning of this year, oil prices have increased by about thirty per cent, impacting on the ability of some countries to sustain recovery.

The last decade has seen significant progress towards the MDGs, but it has been uneven across and within regions and within countries. The recent multiple crises also show how easily development gains can be threatened. The poorest countries are ill equipped to deal with one major crisis, let alone multiple crises. The global economic crisis came on the back of sharp increases in food and fuel prices. Some developing countries have also had to cope with extreme weather events. With food and fuel prices once again on the rise, more needs to be done to reduce the pressure on and volatility in global food markets, and to help countries and populations to cope.

Safeguarding global economic recovery and paying specific attention to the most vulnerable countries need to go hand in hand, given continued imbalances and uncertainty.

The G-20's agenda is of great importance. An agreement on concrete steps towards the implementation of the *Framework for Strong, Sustainable, and Balanced Growth*, and of the *Seoul Development Consensus* would be helpful in putting the global economy on a more equitable and sustainable development path.

Likewise, the Fourth United Nations Conference on the Least Developed Countries in Turkey in May 2011 is an important opportunity to address the special needs of LDCs, and identify new challenges to and opportunities for the development of those countries. The UN warmly welcomes the Bretton Woods institutions' engagement in this important conference at the highest level, and looks forward to close collaboration in support of the LDCs.

The importance of sustainable human development

Sustainable human development seeks to ensure people's right to enjoy a decent standard of living while also respecting the Earth's natural limits. The 2012 UN Conference on Sustainable Development (UNCSD), or Rio+20, provides an opportunity to discuss how the world community can achieve that equilibrium.

In the current economic climate, investments in green technologies and infrastructure represent a 'triple-win'; they can help safeguard the global economic recovery, create work, and support sustainable development. Both public and private finance will need to be mobilized, and developing countries will need support to access appropriate 'green' technologies and the finance necessary to develop and deploy them. The United Nations development system, with its presence around the world and its expertise on a wide range of development issues, will be vital in supporting this collective effort on the ground.

Enhancing finance for development

ODA remains a vital source of external finance for many of the world's poorest countries. Significant progress has been made over recent years in increasing the quantity and quality of official development assistance. ODA reached an historic high in 2010, up 6.5 per cent on the previous year. South-South co-operation is also growing fast, and making valuable contributions to development. Nevertheless, the volume of development assistance mobilized so far is not sufficient to meet the world's development challenges. Fiscal pressures in donor countries are now putting ODA budgets under pressure.

At the same time, there are limits imposed on low-income countries around the amount of non-concessional finance they are permitted to access under the IMF and World Bank debt sustainability framework. Thus these countries are being squeezed on two sides: there are not enough grants to support needed investments in the MDGs, and countries are constrained in their ability to turn to non-concessional finance to fund their development.

The capacity of developing countries, especially the poorest, to borrow sustainably and invest efficiently needs to be enhanced, but that must be matched by greater efforts from the international community to meet its aid commitments and increase the volume of concessional finance available to developing countries.

Innovative finance mechanisms are beginning to play a useful role in increasing the resources available for development and supplementing traditional ODA. Over the last five years, more than US\$3 billion has been raised through such mechanisms, mainly for the health sector. This year's UN General Assembly resolution on innovative financing highlights the progress made in this area and

notes the importance of scaling up current initiatives and developing new mechanisms.

The UN is encouraged by the work currently underway in a number of forums, including the IMF, to explore the pros and cons of different innovative financing proposals, and is keen to contribute to it. Innovative finance mechanisms have the potential to deliver considerable and predictable resources for development, for tackling climate change, and for other public goods.

Enhancing policy space

In the aftermath of the recent economic crisis, analysis of the causes of the crisis points to a lack of financial regulation, macroeconomic policy failures, and a fragmented global surveillance system. The IMF recently launched a review on how the institution assesses risks and prospects for economies around the world.

Developing countries need more policy space within which to explore their own development paths. Recent reform of many of the IMF's lending facilities to reduce conditionalities and respond better to the needs of member countries is welcome.

Financial sector reform

Weaknesses in the international financial system were among the factors underlying the global economic crisis. A number of options are available for creating a more stable financial system and a better environment for sustainable growth. Improved international financial regulation could help reduce excessive

risk-taking and capital flow volatility, including through consideration of appropriate capital controls and macro-prudential regulatory reforms.

It is also recognized that the IMF in its surveillance activities needs to pay more attention to financial sector issues and to policy spill-overs, especially those emanating from systemically important countries and financial centres. Another important focus of reform is the creation of an effective global financial safety net as an important backstop for safeguarding global economic and financial stability.

Furthermore, the need to explore options for reform of the international monetary system, is now broadly accepted. It is generally agreed that the long-term issue of moving towards a more diverse, balanced, and stable international reserve system, including an enhanced role for Special Drawing Rights (SDRs), should be kept under consideration.

Global economic governance

The international community has agreed on the need for reform of the international financial institutions to enable them to serve the needs of member states better. As developing countries integrate into the global economy, they seek fair representation in systems of global governance. The ongoing governance reforms of the World Bank and the IMF are to be welcomed.

It will be important for the G20 to continue to interact with the broader multilateral system to ensure that the interests of those beyond its ranks are not excluded from consideration. The universal membership and legitimacy of the United Nations gives it an important role to play in this regard.

The UN Secretary-General Ban Ki-Moon is preparing a report on global economic governance and development for presentation to the UN General Assembly.