Third Preparatory Committee (PrepCom) for the Fourth International Conference on Financing for Development (FfD4), NY, 10-14 February, 2025

February 13, 2025

Samantha Kanoyangwa , African Sovereign Debt Justice Network on behalf of the CS FfD Mechanism Intervention delivered at systemic issues segment

Thank you chair, I am Samantha Kanoyangwa and I speak on behalf of the African Sovereign Debt Justice Network and the Civil Society FfD Mechanism

Capital Account Management and Financial Regulation (para 56)

- The current monetary and financial frameworks undermine the economic, monetary and financial sovereignty of developing countries, trapping them into currency hierarchies, liquidity challenges and regressive monetary policies that restrict policy and fiscal space for macroeconomic stability, structural transformation and economic diversification, with real-economy effects on the cost of living, employment opportunities and social expenditures, including for gender equality and climate adaptation.
- Capital account liberalization, underpinned by market-based exchange rates and the international currency hierarchy, generates procyclical capital flows. When interest rates are low in rich countries, many developing countries receive a surge of inflows. When reserve currency issuing central banks raise rates, capital flows reverse directions, typically triggering currency depreciations. In turn, the cost of servicing foreign exchange denominated debt and purchasing international imports soar, risking the onset of financial and debt crises. As such, capital account regulation and management **must** be recognized as a first best measure to safeguard national economic security and stability, and indeed, as a crisis-prevention measure, when faced with an externally generated and unsustainable surge in capital inflows or outflows.
- However, many countries face legal restrictions on their ability to employ capital account regulations due to stipulations in Bilateral Investment Treaties (BITs). The absence of statutory protection against litigation, asset grabbing, and restrictions resulting from BITs remains central to recourse to capital account management and regulation.

- We **reiterate** that it is essential for all UN Member States to assess the current system from both developmental and global financial stability perspectives and undertake decisive steps towards financial regulation, recognizing the limitations of voluntary non-binding measures, starting with capital account management and the regulation of the asset management industry.
- We however **reject** the call for this task to be demanded to bodies such as the Financial Stability Board (FSB) and the Bank of International Settlement, given their exclusive representation and, in the case of FSB, extensive conflicts of interest. The FSB has been created by the G20 and reports back to the G20 finance ministers. It therefore strengthens the G20 decision-making power. The FSB has a selective membership, mostly finance ministries and central banks of the G20 member countries and a few other countries with large private financial sectors (e.g. Netherlands).

- ***We therefore request deletion of all sub-paras a) b) and c) and call for their replacements with the following new sub-paras:***

a) We undertake to define a global agreement under the aegis of the UN on the importance of capital account management

(This builds on the precedent set in the Addis Ababa Action Agenda, Para 105

b) We agree to initiate an intergovernmental process towards a UN global regulatory framework to adequately regulate and supervise for the asset management industry. The process will include a review of existing regulatory bodies for banking and non-banking intermediaries and ensure their governance is reformed to ensure adequate representation of developing countries

c) We commit to dedicate a special session of the ECOSOC to discuss the reform of the Bank of International Settlement and ensure its governance can be expanded to adequately represent developing countries, including countries in special situations.

Finally, civil society emphasizes that the FfD4 negotiations must not take place behind closed doors! By the end of this week, we expect clear modalities for our engagement leading up to Sevilla, ensuring a confirmation of democratic participation, transparency, and civic accountability.

I THANK YOU