Civil Society Consultation on the Work of the President of the UN General Assembly's Commission of Experts on Reforms of the International Monetary and Financial System

A compilation report prepared by the United Nations Non-Governmental Liaison Service (UN-NGLS)

New York and Geneva

2009

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Background and Methodology

In the wake of the global financial and economic crisis, the President of the United Nations General Assembly set up a Commission of Experts on Reforms of the International Monetary and Financial System to reflect on the causes of the crisis, assess its impacts on all countries and suggest adequate responses to avoid its recurrence and to begin the process of restoring global economic stability. The Commission has a relatively short span of time to carry out its work and to produce a final report, to be distributed to Member States, other involved parties and the wider public, as part of a larger United Nations initiative to achieve the needed financial and economic reforms. The report will be considered in the preparatory process leading up to the UN Conference at the highest level on the world financial and economic crisis and its impact on development (called for in the final document adopted at Doha in December 2008 – resolution A/RES/63/239).

The GA President called upon the UN Non-Governmental Liaison Service (NGLS) to bring together civil society-based expertise and insights and compile it into one report in order to inform the preparations of the President's Commission on Financial Reforms. NGLS accomplished this through a three-week online consultation (26 January-13 February) that sought feedback on the four working themes of the Commission (financial regulation; multilateral issues; macroeconomic issues and addressing the crisis; and reforming the global financial architecture). NGLS then had ten days to prepare this report.

Nearly 100 responses were received during the consultation, many of them from different networks that bring together millions of people on different issues (trade, gender, global unions, environment, etc.) across several countries from the North and the South. Many of the organisations that responded are networks of hundreds of organizations or even "networks of networks" representing thousands of members. Other submissions reflect the views of a smaller number of organizations or people.

The NGLS online consultation aimed at being as inclusive as possible and was designed to interface with the way the Commission is structuring its work. NGLS has an extensive outreach capacity to civil society organizations; and, once informed, the organizations themselves took it upon themselves to advertise the consultation within their own networks.

The NGLS report does not represent a "consensus document" among NGOs, but aims to reflect the content of civil society proposals to reform the international financial and monetary system. It is hoped that it will serve to spark debate and to shed light on a number of issues.

For further information on methodology of this consultation, see the NGLS website (www.un-ngls.org/scf). A number of NGO submissions can also be found there.

Executive Summary

The ongoing financial crisis and its continuing spillover into the global economy has created a crisis of survival for the poor – nations as well as people. Economies have been slowing down, jobs have been lost, capital inflows are drying up, commodity prices and exchange rates are showing signs of increasing volatility, and all these factors are pushing countries to the brink of economic crisis.

It is increasingly becoming clear that the current crisis is deepening and requires a global response. [ActionAid International]

While the responses to the consultation were many and varied, there were several central themes that emerged. First, almost all respondents agreed that the responsibility for the current financial crisis lies in the developed world. It is therefore developed countries that must carry out the most fundamental changes, both in terms of their domestic policies and in the positions they take in international economic governance fora. For most respondents, the current global financial and economic crisis exposed a misguided macroeconomic policy framework that civil society had denounced for decades and was symptomatic of a democratic deficit in global economic governance, including the lack of meaningful voice for developing countries in relevant decision-making fora.

Many argued not only for a stronger role for the United Nations in the immediate response to the crisis: responsibility for coordinating the longer term global economic and financial reforms should ultimately fall squarely with the United Nations, as the most globally representative and participatory body currently in existence. Major reform decisions that will affect all countries cannot be left to the G8 or even the G-20. In the same vein, when calling for in-depth reform of the World Bank, the IMF and the other principal international financial institutions (IFIs), as well as the possible creation of new global regulatory bodies, most respondents advocated that these be brought institutionally under the purview of a strengthened United Nations, and be in practice accountable to UN human rights, development and environmental objectives (Chapter 2).

Immediate Response to the Crisis: A Strategic Opportunity

One way developed countries should take responsibility for the current crisis is first, to maintain their ODA commitments; and, second, prepare a “global financial stimulus package” that would be directed at developing countries. This package should bring no new debt nor should it be attached to conditionalities that would limit developing countries’ ability to respond to the crisis in a flexible manner. Indeed, the package should enhance their ability to choose from a range of policy options including capital controls (which should be “re-legitimized” as essential crisis prevention and mitigation tools) and various counter-cyclical measures. This stimulus could also include debt relief from arrears accumulated over the previous decades.

Any kind of stimulus should take the social dimensions of the current crisis into account and gender impacts in particular. Almost all submissions raised the need for introducing some kind of “social floor” in the wake of the current crisis. It was argued that various forms of social protection – often the first victim of budget cuts – should instead be expanded in this time of crisis. Many insisted that these measures would in fact have a positive long-term impact on the development of all countries. The crisis should further be an opportunity to reorient macroeconomic policies (including the mandate of central banks) so as to be made consistent with full and decent employment and development goals (Chapter 3).

Indeed, most respondents urged governments "not to waste" the current crisis but to use it as an opportunity to address the other "crises" (food and climate, jobless growth and below-poverty-line informal work) and to develop long-term sustainable social and economic development strategies. Respondents were adamant that the crisis be used as an opportunity notably to develop a *green global economy that respects and preserves our global common goods, prevents further global warming and ensures a sustainable, safe and clean environment for future generations.* [Social Watch]

International Tax Cooperation

The multiple dimensions of international tax policy were treated by many contributors as a major regulatory issue, as well as a necessary redistributive instrument. Tax loopholes translate in regulatory loopholes, as well as a massive hemorrhage of public revenue and source of global injustice. Resource mobilization through international tax cooperation was seen as all the more necessary in the current context of gargantuan deficit-funded bail outs and stimuli in rich countries and constraints on the ability of poorer countries to pursue counter-cyclical policies and maintain budgetary spending. This included cooperation to curb or eliminate tax havens, tax evasion and transfer pricing, regional cooperation to set floors on corporate taxes, as well as various forms of international taxation (notably a currency transaction tax) that could raise significant resources as well as play a regulatory role. Some called for the creation of an International Tax Organization while significantly strengthening the UN's work on tax cooperation in the interim (Chapter 1).

Re-regulating Finance to Work for People and the Real Economy

A host of concrete proposals were put forward to bring transparency to the financial system and downscale systemic risk, including by shutting down secrecy jurisdictions, raising capital requirements on derivatives and hedge fund markets, placing limits on leverage ratios and effective "socialization" of financial institutions that are "too big to fail." With the dual food and energy price crises that preceded the full global impact of the financial crisis, many contributors stressed the need for special public measures to curb or eliminate speculation on staple-food-related-commodity and energy markets.

Various proposals mentioned the need for "counter-cyclical" regulation as an essential alternative to the pro-cyclical "boom and bust" policies that characterized the self-regulation paradigm embodied in Basel II. Beyond that, participants saw a regulatory role in directing finance to long-term societal goals and bringing it back to one of its core functions of financing production in the real economy. This could be achieved through a combination of prohibitions, penalties and incentives, the screening of capital entries, and new regulations that favour (instead of *de facto* penalizing) cooperative forms of finance and community reinvestment. It also meant a fundamental review of rating agencies and redefining risk criteria to include parameters of long-term sustainability and social cohesion (Chapter 1).

A New Sovereign Debt Architecture

Many international campaigning networks on debt provided a comprehensive approach to construct a new sovereign debt architecture, including a fair and transparent orderly debt workout mechanism and the cancelling of odious and illegitimate debt. Frequent mention was made of what was described as the historic decision taken by Norway to cancel several claims on the basis of "failed development policy" and "co-responsibility." In addition, the comprehensive debt audit conducted by Ecuador and the suspension of payments on some claims subject to further investigation were cited by many contributors as a model the UN should encourage and support.

There was a wide call to review and redefine debt sustainability in terms of human development and human rights goals. It would aim also to deter creditors from engaging in irresponsible lending and could form the basis for developing a common platform or covenant for principled and responsible financing (Chapter 4).

Global Financial Architecture: Redressing Global Imbalances and Asymmetries

Many contributions proposed various measures to address global imbalances and asymmetries in the global economy which contributed to the current and past crises and reinforced global inequities, notably in terms of South-North net financial flows and unequal capabilities in crisis response.

A number of contributions identified sharp gyrations in exchange rates as a major source of instability and inequity, affecting trade relations often more fundamentally than trade determinants on the official trade agenda – calling for the UN to play a leading role in addressing this perennial issue since the collapse of the Bretton Woods system in the 1970s. In particular, some contributions encouraged the Commission to consider UNCTAD's recent proposal for a multilateral exchange regime to stave off currency speculation.

Regional approaches as an alternative or stepping stone to multilateral exchange rate stabilization were indeed emphasized by a number of participants, often described in the context of more comprehensive regional development agendas, including the *Banco del Sur* in Latin America, and regional currency arrangements and reserve pooling. Mention was made notably of the "Ecuadorian proposal," involving intensified regional monetary cooperation towards regional exchange rate mechanisms, the pooling of reserves and their convertibility into a new regional currency.

A few participants contributed and commented on proposals for more fundamental global financial architecture reform involving the creation of a new global reserve system to anchor exchange rates, with "seigniorage" (emission) capacities, and involving symmetrical disciplines on surplus and deficit countries. Proposals ranged from the IMF issuing Special Drawing Rights (SDRs) for financial and currency stabilization as well as development objectives, to the establishment of an

International Money Clearing Unit (IMCU) that only central banks would hold among nations that would abide by the rules of a clearing union system. This system would involve symmetrical responsibilities among surplus and deficit countries.

Others were more circumspect about global monetary solutions. A key question in the possible move to a new system of fixed exchange rates was how the initial rate of each country would be set in the context of power imbalances associated with asymmetric currency values. Until such political obstacles could be surmounted, many preferred regional approaches, and insisted that the first line of defense for developing countries remained the effective use of capital controls (or "capital management" techniques) to manage destabilizing capital movements (including speculative attacks on national currencies), screen the quality of capital entries and prevent capital flight (Chapter 4).

Solutions to the present crises should not be premised on re-establishing or saving a failed system, but on changing it. The UN can and must rise to this occasion. [Jubilee South]

THEME 1: FINANCIAL REGULATION

The financial crisis is a systemic crisis that emerges in the context of global crises (climate, food, energy, social…) and of a new balance of power. It results from 30 years of transfer of income from labour towards capital. This tendency should be reversed. This crisis is the consequence of a capitalist system of production based on laissez-faire and fed by short term accumulation of profits by a minority, unequal redistribution of wealth, an unfair trade system, the perpetration and accumulation of irresponsible, ecological and illegitimate debt, natural resource plunder and the privatization of public services. This crisis affects the whole humanity, first of all the most vulnerable (workers, jobless, farmers, migrants, women…) and Southern countries, which are the victims of a crisis for which they are not at all responsible.

The resources to get out of the crisis merely burden the public with the losses in order to save, with no real public benefit, a financial system that is at the root of the current cataclysm. Where are the resources for the populations which are the victims of the crisis? The world not only needs regulations, but also a new paradigm which puts the financial system at the service of a new international democratic system based on the satisfaction of human rights, decent work, food sovereignty, respect for the environment, cultural diversity, the social and solidarity economy and a new concept of wealth. ["Let's put finance in its place!"; Belem 1 February 2009, NGO Sign-on Statement]

<u>I. CROSS-CUTTING ISSUES</u>

Many of the civil society contributions approached the question of financial regulation by placing emphasis on two cross-cutting issues that are relevant to the other themes of the Commission agenda. These are:

- capital controls (or "capital management techniques") and
- international tax policy (ranging from international taxes on financial transactions to addressing tax evasion, tax havens and offshore banking)

Re-legitimizing capital controls

Capital controls were seen as particularly important to prevent and mitigate the impact of the global financial crisis on developing countries. Their effective use needed to be re-legitimized at both the national and regional levels (including bilateral and regional free trade agreements) and in international policy frameworks.

Alongside other important regulatory instruments, capital controls can be crucial during a financial crisis. Unfortunately, the era of deregulation has made developing countries extremely vulnerable to capital outflows in a time of crisis, compounding their current difficulties. This needs to be addressed by the work of the Commission.
a) Governments should take responsibility for controlling cross-border capital flows, which must be better monitored. In particular, poorer States should not be penalized for doing so, or forced to adopt any particular economic policies.
b) Multilateral, regional and bilateral financial liberalization clauses should be revised. The use of capital controls should be relegitimised by developing countries

and international financial institutions (IFIs) should provide technical assistance on how to introduce them. [Oxfam International]

The international orthodoxy of recent years, that developing countries would obtain great benefits while having little risks in having a financially open system, is now losing credence in light of the extremely high costs being paid by several countries that opened up and experienced the sudden entry and exit of foreign funds, with the resulting instability and economic dislocation. A new paradigm is emerging that grants that developing countries should have and, indeed, should sometimes take the option of maintaining or imposing capital controls to protect their interests and to enable a degree of financial stability. Especially in the absence of international regulation of capital flows, capital controls should not be taboo but be seen as a normal, acceptable and, indeed, valuable component of the array of policy options available to promote development.

This emerging paradigm is one of the outcomes of the East Asian financial crisis made even more pertinent by the current crisis. In order for developing countries to be able to exercise this option, however, the present prejudices against such controls should be removed. [Third World Network]

Capital control measures, such as deposit requirements to discourage short term speculative investors need to be reintroduced as part of the tools available to governments to avoid capital flights and speculative attacks. [Social Watch]

[T]he flexibility of many affected countries to introduce the capital management techniques and regulations required by the crisis has been compromised already by bilateral trade and investment agreements. Indeed, in the last few years, it has become common for such agreements to include provisions that constrain the capacity of governments to manage the financial sector, the capital account and sovereign debt…The global financial crisis is leading to significant losses of jobs, as well as real wage and benefit reductions. The implementation of pro-employment fiscal, monetary and banking policies, such as exchange rate-targeting, is also compromised by the disciplines on capital management and respective dispute settlement clauses contained in agreements on trade and investment. [International Working Group on Trade-Finance Linkages- Steering Committee]

To stem speculative activities, governmental authorities should avail from a menu of capital management techniques available to regulate the volatility of capital flows. [Women's Working Group on Financing for Development]

Establish international permanent and binding mechanisms of control over capital flows. ["Let's put finance in its place!"; Belem 1 February 2009, 'Sign-on' Statement]

It was noted that capital management techniques are not only needed for crisis prevention and mitigation, but also to support longer-term macroeconomic and development goals discussed under Theme 3, as was common practice in the early post-World War II era.

Control on capital flows are imposed for two reasons: firstly, as part of macroeconomic management (to reinforce or substitute for monetary and fiscal *measures) and secondly to attain long-term national development goals (such as ensuring residents' capital is locally invested or that certain types of activities are reserved for residents). Contrary to the belief that capital controls are rare, taboo or practised only by a few countries that are somehow "anti-market," the reality is that these measures have been very widely used. In early post-war years, capital controls for macroeconomic reasons were generally imposed on outflows of funds as part of policies dealing with balance-of-payments difficulties and to avoid or reduce devaluations. Rich and poor countries alike also used controls on capital inflows for longer-term development reasons. When freer capital movements were allowed from the 1960s onwards, large capital inflows posed problems for rich countries such as Germany, Holland and Switzerland. They imposed controls such as limits on non-residents' purchase of local debt securities and on bank deposits of non-residents.* [Third World Network]

International tax policy

The multiple dimensions of international tax policy were treated by many contributors as a major regulatory issue, as well as a necessary redistributive instrument. Tax loopholes translate into regulatory loopholes as well as a massive haemorrhage of public revenue and source of global injustice.

Tax evasion, tax havens and offshore banking

A number of contributions highlighted the harmful role of tax havens and secrecy jurisdictions, notably in causing the global financial crisis.

In a world of global banks and 24 hour financial markets, regulation is only as effective as the weakest link in the chain: tax havens are the weakest link. This explains why so much of the "financial innovation" of the past two decades can be traced back to these places. The majority of hedge funds are located in London, the Cayman Islands and the British Channel Islands. Ditto the private equity industry; the issuance of securitised debt; the re-insurance industry, and the structured investment vehicles at the heart of the shadow banking system. [Tax Justice Network]

Ensuring secrecy, offshore banking centres have also played a crucial role in the current financial turmoil. Not only have these centres enabled complex financial arrangements and allowed the concealment of excessive risks, but they have also contributed to international capital flight. Billions of dollars that could have helped developing countries to mitigate the effects of the current crisis or to finance social development have been transferred to tax havens. Capital flight from poor to rich countries is estimated to range between 500 and 800 billions US$ per year.
[Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

Many contributions focused on the need for the international community to take action to limit or eradicate offshore banking and tax havens.

The fact that tax havens are on the G20 agenda is an opportunity that must be seized by the Commission to make progress on this issue…. Tax havens should be closed so as to significantly reduce illicit capital flight and tax evasion. Transition measures for affected developing countries that host them may be worth considering. [Oxfam International]

Small vulnerable economies that have turned into tax havens, many with citizens who do not take any advantage of the offshore status, need support and financial assistance to diversify their income and comply with standards to prevent money laundering. [CIDSE]

Specific proposals included a UN Code of Conduct on cooperation in combating international tax evasion and avoidance, as well as for the establishment of an International Tax Organization under the auspices of the UN.

Shut down secrecy jurisdictions, the shadow banking system and offshore financial centres (OFC) as a way to eliminate cross-border tax evasion and capital flight and limit the scope for future tax avoidance, in order to mobilise much-needed resources for sustainable development. As first step, strong regulation on bank transfers to OFC need to be developed. Ultimately, an international tax organization under UN auspices is needed for the democratic control of taxation, i.e. to combat tax competition, tax evasion and corrupt capital flight. As a first step, the UN Tax Committee [United Nations Committee of Experts on International Cooperation in Tax Matters] should be upgraded considerably. [Social Watch]

The same array of proposals was echoed by other contributions, including in more specific detail:

Along with the adoption of a UN Code of Conduct on cooperation in combating international tax evasion and avoidance and putting in place an intergovernmental UN organ for International Cooperation on Tax Matters, there should be a renewed black-listing of non-cooperative tax havens, combining the work of the OECD, FATF and FSF. It should include all States and territories, including major financial centres unwilling to agree to the automatic exchange of tax and judicial information, to abandon strict banking secrecy and to register trusts' beneficial owners. Gradual and strong retaliation measures should be taken against uncooperative tax havens. Promotion or undertaking tax evasion should be a criminal offence and made legally actionable, targeting their users: TNCs, banks, rich individuals; and financial intermediaries: corporate directors, lawyers and accountants in large financial centres. US action against UBS evidences the ability of a tax administration to extract information on off-shore accounts despite banking secrecy. Tax evasion should also be included under anti money-laundering legislation. Anti-money laundering efforts should be stepped up and particularly enhanced in developing countries, including by the strengthening of regional Financial Action Task Forces and by providing them with constraining power. [CIDSE]

Governments must systematically reform and regulate offshore banking jurisdictions. Schemes such as the European Union Savings Tax Directive must be tightened up to force automatic exchange of information between all legal entities and should progressively be extended to become a global regulation. Governments should support the intergovernmental work on reform of taxation, by upgrading the UN Committee of Tax Experts to the status of an intergovernmental body, providing sufficient resources to undertake its task, moving quickly to adopt the UN Code of Conduct on combating tax evasion and avoidance and strengthening judicial and tax *cooperation through information exchange, effective black-listing of non-cooperative tax havens and obligations to repatriate stolen assets.* [SOLIDAR]

Comprehensive reforms are needed which will eradicate all of the mechanisms that the financiers, lawyers, accountants and their clients use to take advantage of tax havens. This will include demands for:

- *comprehensive disclosure of ownership data;*
- *the closure of bank subsidiaries located in tax havens;*
- *adoption of a country-by-country reporting standard for multinational companies;*
- *abolition of the use of "off-balance" sheet accounting vehicles;*
- *effective steps to tackle trade mispricing;*
- *taxation of hedge fund profits as income rather than capital gains;*
- *a multilateral tax information exchange treaty based on automatic exchange.*

Taken as a package, these measures will severely restrict the use and abuse of tax havens. Many can be expected to collapse and might need transitional support to restructure their economies. [Tax Justice Network]

Transfer pricing

Closely related to the above, a number of contributors sought to end the practice of transnational corporations manipulating their accounts through distorted transfer pricing to show their profits where they are taxed least heavily, rather than where they are earned. Transfer pricing was a common theme and many of the proposals focused on how companies should report ownership structures, profits/losses and the taxes paid on a country-by-country basis. Many groups recommended an "automatic information exchange" component in order to prevent transfer pricing abuses.

Transnational corporations need to be effectively taxed. To avoid paying taxes, TNCs have taken advantage of the considerable trade between their multiple affiliates and developed complex mispricing strategies. Country-by-country reporting as part of the international accounting standards for TNCs should be required in all sectors, as this would considerably curtail the possibilities for transfer pricing. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

States at comparable levels of economic development and in geographic proximity and regional economic groupings should harmonize their tax bases and minimum rates for corporate taxation.
[CIDSE]

Country by country reporting of accounts should be required of all TNCs, not only in the extractive sector. Host country requirements such as local purchasing and trade-balancing requirements, currently forbidden by the TRIMs [Trade Related Investment Measures] agreement, should be re-enabled, given their potential to prevent transfer pricing. [CIDSE]

A key component of the new international norm must be "automatic information exchange"… [C]ompanies must report their ownership structures and the total profits, losses and taxes they pay on a country-by-country basis. This way, individual countries could check that the right amount of tax had been paid on profits *originating in their countries and track the trade between subsidiaries and their parent companies. A new worldwide standard needs to be developed through the International Accounting Standards Board (IASB).* [ActionAid International]

Financial transaction taxes

A number of contributions focused on variant proposals to tax financial transactions (inspired from the original "Tobin Tax" proposal), either for regulatory or revenue raising purposes or both. Some focused exclusively on a Currency Transaction Tax (CTT) and others on a broader Financial Transaction Tax (FTT). The higher the tax rate, the higher its regulatory function was emphasized.

There can also be serious pursuit of a global tax on short-term financial flows, such as the Tobin Tax, where a small tax (say, 0.25%) is imposed on all cross-country currency transactions. This will penalize short-term speculators while it will have only a very small effect on genuine traders and long-term investors. The advantage is that not only will speculation be discouraged, but there can be greater transparency in the markets as movements of capital can be more easily traced. [Third World Network]

Regulate transnational capital by instituting a financial transaction tax. This would help to slow down international speculation and risky practices, reducing some of the chaos in current international commodity markets. [Maryknoll Office for Global Concerns]

A two-tier Currency Transaction Tax (CTT) would moderate the effects of speculative runs on currencies while generating revenue for development. It would so contribute to the prevention of major currency crises. The CTT's feasibility has been corroborated by many studies…. A more general Financial Transaction Tax (FTT) should tackle the financial instability that has been significantly exacerbated by the recent evolution of new financial instruments. The FTT could be levied on a whole range of financial transactions. It could be introduced step-by-step, first covering all transactions with financial assets, spots and derivatives in key financial centres, then expanding to broader geographical coverage. A FTT would stabilize excessively dynamic financial markets. As the tax base is the notional value of the respective transaction, the tax burden relative to the cash invested grows as the leverage effect rises. Such a FTT will specifically hamper those transactions that involve high leverage and therefore a high risk. A general FTT would make transactions more costly the shorter their time horizon is, hence it would tend to dampen technical trading. It can be expected to reduce excessive liquidity stemming from short-term oriented and destabilizing transactions. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

This CTT… would respond to the United Nations' General Secretary's concerns when he noted "renewed international interest in a possible currency-transaction 'development levy' of 0.005%, a minuscule tax […] having the potential to generate billions of dollars that can be allocated for development. […] Currency transaction taxes involve more than one country [... and] are best implemented in a cooperative manner among countries." [UBUNTU – World Forum of Civil Society Networks]

Governments, parliaments and global civil society [should] enact a very small global levy or tax on international currency transactions…. The revenues would be divided between global international institutions, regional bodies, and the parliaments of participating countries. Funds designated for the global international organizations would be deposited equally into ten or more "sectoral trust funds," including on peace and security, development and eradication of poverty, human rights, education, advancement of women, health and eradication of disease, environmental protection, children, disarmament, and debt relief. [World Federalist Movement - Institute for Global Policy]

II. RE-REGULATING FINANCE

Transparency and downscaling systemic risk

Many contributions called for greater transparency (which can only go hand-in-hand with decisive progress on secrecy jurisdictions and tax havens) and specific measures to scale-down or eliminate sources of systemic risk. Many stressed that transparency is necessary but not enough.

There should be greater transparency in the way the financial markets operate. There should be more disclosure of the players and the deals in the various markets, including the trade in currencies. In particular, the funds available to and the operations of highly leveraged institutions such as hedge funds should be made public.

At the global level, there should be a system of monitoring short-term capital flows, tracing the activities of the major players and institutions, so that the sources and movements of speculative capital can be publicly made known. [Third World Network]

All existing financial instruments need to be strictly regulated. Over-the-counter markets, in which derivatives and other "toxic" products are exchanged without any public control, should be prohibited. Under a safe regulatory regime, standardised derivatives could be traded at the stock market and would be strictly supervised. New financial instruments must be licensed by public authorities. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

[R]egulators need to be better trained to understand valuation problems for many types of securities and derivatives, including centralized [collateralized] debt obligations. New risk management techniques that can handle larger stress levels beyond arbitrarily determined standard deviations from historical averages need to be devised. New measures are also needed to regulate secondary markets, particularly bridging the gap between book values and mark-to-market pricing. [Women's Working Group on Financing for Development]

The possibility of a fiscal instrument which levies revenue proportionate to the level of risk taken by an institution should be explored. This would both de-incentivise high levels of risk and ensure that where risks are taken, the revenue system builds reserves to address potential negative fallout of those risks. [Christian Aid]

Curbing/eliminating speculation in commodity (staple food) and energy markets
With the dual food and energy price crises that preceded the full global impact of the financial crisis, many contributors emphasized special measures to curb or eliminate speculation on staple food and energy markets.

Excessive volatility of commodity prices or exchange rates, fuelled by speculation, is an important contributor to the crisis, with a serious adverse impact on development prospects of many poor countries. This problem must be addressed adequately by the Commission both in terms of prevention of speculation but also measures to bolster the resilience of poor countries and vulnerable populations. [Oxfam International]

Commodity index funds bundle up to 24 agricultural, energy, base and precious metal commodities. Agricultural commodities, the minor part of these funds, are subject to price swings driven by energy and mineral prices, endangering food security. The [Commission] should consider whether, in the absence of effective regulation, the funds should be banned. Fund trading at least should be subject to "circuit breakers" whenever extreme volatility impedes food security. [IATP]

A Tobin [Tax] variant could applied to commodities speculation, both to reduce the sometimes minute to minute trading that drives excessive speculation and to partly finance commodity exchange regulatory authorities. [IATP]

OTC [Over-the-Counter] trades of both commodities and financial derivatives form part of the mammoth "dark pools" of private and unregulated investments. Since OTC trades strongly influence prices in public exchanges, OTC trading data should be reported completely and promptly in all jurisdictions, so regulators can act promptly when traders exceed speculative position limits. Position limits should apply equally to all market participants, lest exemptions, exclusions and waivers for favored financial institutions result in financial institutions "too big to fail." [IATP]

How to deal with institutions "too big to fail"?
The global public goods nature of the financial system and its stability was emphasized by many participants, notably in terms of how to deal with "too big to fail" institutions.

Financial institutions that are "too big fail" and perform such a vital role for the real economy that deserve to be kept in business with taxpayers money, while the State takes the risk of guaranteeing deposits, ought to be in fact run under strict governmental supervision, with limits imposed on executive compensation and dividend payouts. The stakeholders that require losses to be socialized have no moral claim to privatize eventual profits and those institutions should thus be subject to the transparency and accountability rules of other State-run services. [Social Watch]
In the spirit of responsibility, no bank should be allowed to become "too big to fail." A bank which knows it will be "rewarded" with a bail out when systemic failure occurs, will not evaluate risk effectively. [Christian Aid]

Such social objectives as universal service should also be applied in other sectors which form part of the social infrastructure, and banking services, including international financial institutions, have a role to play in that respect, by extending *loans for investment purposes. To that end, the role of public banks needs to be re-emphasized to take account of the increasingly risk averse behaviour of the commercial banks. Faced by the triple requirements of resumption of lending, reduction of leverage/increased capitalisation and risk assessment /costing, there is as yet no sign that the commercial banks are responding adequately to the needs of poorer consumers, not just for FS [financial services] but also for all those other vital services to which their governments have committed in various ways. Yet such response is a necessary prerequisite for the massive public support which is being extended to the banks. Without such response it is hard to see any justification for the banks not being taken over by those without whose support they would founder. This is the logical conclusion of the "too big to fail" argument.* [Consumers International]

[T]he basic approach should initially be to return as much as possible of the [banking] industry to basic utility banking; strictly separating conservative money transmission and simple prudent lending where safety (neutral risk) is the prime consideration, from the potentially damaging speculative profit-making, which was introduced after the 1980s deregulation. The former should once more be limited to the traditional (pre-1980s) form of utility banking…. [Shaping Tomorrow Foresight Network]

Consumer Protection

Proactive, affirmative consumer protection is essential to safety and soundness of the financial system. The complex financial instruments that sparked the financial crisis were based on home loans that were poorly underwritten; unsuitable to the borrower; arranged by persons not bound to act in the best interest of the borrower; and with terms so complex that many individual homeowners had little opportunity to fully understand the nature or magnitude of the risks of these loans. [Consumers International]

No financial product should be offered to customers until it has been officially approved to be safe for consumers (no predatory lending) and not causing instability or "toxic" risks. [SOMO]

De-leveraging

International regulatory norms (i.e., in-capital requirements, accounting standards and transparency norms, limits on leverage, etc.) must be comprehensive in terms of the institutions covered. They should be applied not only to banks, but also to private equity funds, hedge funds, etc. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

Policy instruments similar to reserve requirements can be applied to derivatives, debt swaps, and hedge fund markets. Limits can be placed on leverage ratios. [Women's Working Group on Financing for Development]

From pro-cyclical to counter-cyclical regulation

Many contributors emphasized that the Basel II model of self-regulation has failed. Various proposals mentioned the need for counter-cyclical regulation.

The banking crisis is the result of a period of more than two decades in which financial institutions were able to create credit far beyond what responsible national *regulators would ordinarily have allowed. This led to a process of boom and bust. The boom characterised by high growth of consumption and by bubbles in unproductive assets, until eventually the bust feeds through from the banking sector into a sharp contraction in real economic activity…. The Basel II agreement for self regulation has demonstrated itself to be ineffective…. Regulation should have a strong counter-cyclical focus thus preventing excessive leverage and force the accumulation of increasing capital reserves during boom times.* [Christian Aid]

The pro-cyclicality of rules for banking supervision, embodied in Basel II, has also been recognized to have negative impacts on trade flows, inter alia, through increased pro-cyclicality of trade finance and credit for production, without which trade is not possible. Banking supervision should be rebuilt on different basis that accords more power to national supervisors to evaluate and regulate the capital requirements of banks in ways that are counter-cyclical and subordinated to the desired profile of production sought by a country. [International Working Group on Trade-Finance Linkages- Steering Committee]

Curb the capacity of banks to generate credit during expansions: Financial regulation in general, and in particular capital adequacy ratios, should be counter-cyclical: it should be tight in good times (storing up reserves and restraining risk exposure) and where necessary loose in bad times (facilitating lending, drawing on the reserves built up in good times). [WWF-UK]

Making finance work for people and the real economy

The orientation of accounting standards towards short-term speculative investors creates the valuation of assets that is based on market demand rather than "real" economic productivity. This leads to volatility in the prices of stocks, bonds, and other forms of investment, which can depart radically from their "real" value. [Christian Aid]

Changing regulatory and incentives structures for long-term goals
Many contributions provided ideas on how financial regulation can help re-orient incentives structures to longer-term societal goals and ensure greater equity in access to financial services.

[D]eveloping countries… must formulate a comprehensive policy to deal with the different kinds of capital flows. Such a framework may include a selective policy towards attracting FDI of the right type; a careful policy on portfolio investment that welcomes serious long-term investors but discourages or prohibits the damaging short-term profit-seekers; a very prudent policy towards public and private foreign loans; and measures that as far as possible avoid manipulative activities and institutions. [Third World Network]

Governance arrangements, human rights, employment, social and environmental assessments should form part of listing and reporting requirements for all companies. Investors should follow the UN Principles of Responsible Investment and include social, environmental and governance risk assessment in their investment practices… Rules must be formulated to discourage or ban short-term, non-productive or *damaging investment, while promoting longer-term socially productive and environmentally sustainable investment.* [SOLIDAR]

[Curb] corporate short-termism by strengthening governance and tax rules on executive compensation, board of directors' responsibilities, risk management and distribution of corporate profits. [ITUC and TUAC]

To guarantee financial stability, regulatory norms must include new and improved corporate governance standards (e.g., stronger representation of risk managers and stakeholders such as employee associations), as well more balanced incentive structures. Incentives encouraging managers to focus on short-term results and brokers to engage in risky, high-yield speculation must be limited. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

Finance ministries should be interested in capital gains taxes and how these might be used to change incentive structures, especially where profit generation from financial product innovation has focused on tax arbitrage and asset price bubbles. Corrective changes to the general tax structure also need to slow the trend towards "financialization," where financial products provide larger sources of profits compared with industrial goods and services production. [Women's Working Group on Financing for Development]

The International Accounting Standards Board should expand the definition of stakeholders beyond speculative investors to include all those affected by the activities of companies. Accounting standards should disclose and account for real economic productivity on a country-by-country basis… International Accounting standards should distinguish between speculation and enterprise. [Christian Aid]

[Give] a duty to regulators, supervisors to ensure that all financial services that finance or service operations, projects, investments, companies, production, trade, housing and consumption are promoting equity and sustainability, including full employment with decent jobs and income. In practice, clear criteria need to be introduced through laws (after public debates and parliamentary voting) for all financial activities and financial players so that financial products, financial transfers and all financial players only contribute to environmentally and socially sustainable activities, with priority to fight climate change and poverty. Regulators and supervisors have to ensure that all risk management mechanisms by all financial actors and all capital reserve requirements should include social and environmental risk calculations. Regulators and supervisors have to ensure that mechanisms and legally accepted criteria and processes are in place for green and social screening of clients/customers of banks. [SOMO]

Community reinvestment

There should be an international community reinvestment process so that all financial institutions that receive funds from investors in poor countries and emerging market economies should invest a portion of these assets back into projects and instruments from these countries…. The regulatory regime should require the financial institutions to demonstrate that they reinvested a stipulated portion of these assets in projects… that target poverty alleviation and meet certain social and environmental indicators. They should show that they aren't only investing in the largest and most *profitable projects in the developing world – which also often generate intense environmental and social concerns. If they aren't willing to invest in smaller, more targeted poverty alleviating projects, they should invest the funds in intermediaries that specialize in these projects.* [Centre for Human Rights, University of Pretoria]

Cooperative finance
Some contributions drew attention to the potential benefits of cooperative finance, but also how current international banking regulation is skewed against favouring the development of such alternative financial entities, as the following contribution from Banca Etica (Italy) testifies:

On the basis of our experience, we see that the present regulation system works to the disadvantage of the investments in small enterprises, social cooperatives, grassroots organisations. Our investments in social enterprises and cooperatives are considered, following Basel II, of maximum risk, because most of these enterprises are under capitalized. No international rating system takes into consideration the high social and environmental value of these enterprises: the creation of new jobs, the employment of disadvantaged people, the protection of traditional agriculture and biodiversity, the delivering of basic social services and so on...

Banca Etica's evaluation is not based exclusively on the capital asset of an enterprise, but we carry out a thorough analysis of its social and environmental sustainability, using various parameters such as working conditions, gender approach, use of renewable energy, internal democracy and so on.

However, this peculiar method of risk assessment is not recognized neither adopted by the financial regulators and supervisors.

Specific proposals:
· *to foresee in the Basel Agreement a specific regime for social enterprises and cooperatives;*
· *to include social and environment negative impact into the risk assessment.*
[Banca Etica]

There is also a case for regulation for the promotion of new institutions such as credit unions and other financial cooperatives, and the development of socially desirable objectives such as universal service and sustainable development. [Consumers International]

Towards better regulatory governance

Many of the proposals highlighted in this chapter imply better regulatory governance at national and international levels and perhaps new institutions such as the aforementioned call for an International Tax Organization. The broader governance questions will be dealt with in the next chapter on Multilateral Issues, including the proposal for a new institution for financial sector surveillance. Below are some highlights of comments and proposals related to improving regulatory governance, starting by changes that need to be brought to rating agencies.

Regulating rating agencies

Credit rating agencies share responsibility for backing the concealment of risks that led to the crisis and must be regulated and monitored by national governments in whose jurisdictions they operate. Legal incentives to rely on credit rating agencies should be removed from law, unless guaranteed by stepped up supervision by the government issuing such law. [CIDSE]

Establish international standards for rating and auditing system to equalize asset valuations of stocks, industrial sectors, and regional economies. Establish the rating agency as a public service that reports ratings and analysis openly. [Alsek Research]

[Address] the oligopolistic structure of the credit rating agency industry, including by establishing public agencies and developing non-financial sustainability rating. [ITUC and TUAC]

Credit and risk rating must be independent and well informed. A new and adequate theory of risk must be developed to help risk assessment over the long-term: this would allow independent experts to inform accordingly risk rating agencies. A proper regulation of all rating agencies is required in order to guarantee no conflict of interests. [WWF-UK]

There is a need to revamp the incentives structure within rating agencies so they produce more reliable assessments and introduce greater competition among what are few players. Proposals for a registry and oversight body should be studied.

There needs to be greater global cooperation among supervisors and regulators in existing fora and institutions, and eventually through setting up inclusive and comprehensive fora that can provide an effective public sector counterpart to what is now a private international financial sector, spot problems early on and call for regulatory reform on emerging areas of risk. [Erlassjahr-Year of Relief 2000]

Some highlighted the “revolving door” problem between regulators and rating agencies.

Closely related to the challenge of valuation is ratings classification, primarily led by credit ratings agencies, whose theoretical underpinnings are questionable. Regulators need to keep abreast of mechanisms so that they can in turn contribute to innovations in regulation. If lack of understanding is not the problem, then the revolving door employment among regulators, ratings agencies, and financial firms contributes to the loss of autonomy and independence that regulation requires, effectively resulting in de-facto self-regulation. [Women’s Working Group on Financing for Development]

Global regulatory bodies

Some contributions focused on what they saw as democratic deficiencies in existing regulatory bodies, emphasizing the primary role of the UN in reforming and establishing global regulatory bodies.

Implement a global mechanism of State and citizen control of banks and financial institutions. Financial intermediation should be recognised as a public service that is guaranteed to all citizens in the world and should be taken out of free trade *agreements.* ["Let's put finance in its place!"; Belem 1 February 2009, NGO Sign-on Statement)]

The Basel II agreement for self regulation has demonstrated itself to be ineffective. Options for a democratised financial regulatory commission which monitors, regulates and has power to limit highly leveraged institutions should be explored. [Christian Aid]

A new regulatory regime must be established at the international level, universal in its geographical scope and comprehensive in terms of institutions and instruments regulated. Financial stability is a global public good…. The financial system reform must be led by the United Nations…The establishment of a new international regime requires global participation and democratic control. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

The General Assembly should affirm the authority of governments to enforce compliance with all financial market rules, including those of commodity exchanges. A public ombudsman should be created in each regulatory authority to provide "whistleblower" protection in the event of government abuse of regulatory authority and/or non- or inequitable enforcement. [IATP]

Avoiding financial crises requires global cross-border cooperation on supervision and regulation. Since the same governments that agreed to the [Monterrey] Consensus sit on the FSF [Financial Stability Forum], Basel Committees, and other bodies that set standards and codes, immediate steps should be taken by them to open these bodies' membership with the goal of achieving balanced, institutionalized and full participation by developing country governments. Standards and codes should no longer be part of IMF and World Bank conditionality and surveillance. [Erlassjahr-Year of Relief 2000]

A move away from self-regulation and strengthening regulatory mechanisms can help increase the transparency of the financial sector. We need to be mindful of the following: How do we allow for differences in the institutional structures across countries without resulting in uniform regulations nor regulatory competition; how do we allow for differences in regulatory structure given different levels of development of national financial sectors?; As we formulate global regulation on the financial sector, how do we consider differences in across countries' capacity to implement and enforce these rules?; How do we determine the impact of new financial products on the Central Bank's ability to control bank reserve requirements and maturity mismatches of assets and liabilities, including those related to capital account management? [Women's Working Group on Financing for Development]

THEME 2: MULTILATERAL ISSUES

Northern countries that have downgraded their commitment to the UN should reverse this attitude and, instead, affirm its indispensable and valuable role in advocating the social and developmental dimension in the process of rapid global change. [Third World Network]

Both the World Bank and the IMF must put an end to the economic policy conditionality that has characterised their interventions in developing countries over the past three decades. This has minimised rather than strengthened the application of fiduciary controls and respect for internationally agreed standards, including core labour standards. The deregulation, liberalisation and privatisation conditionalities of the IFIs, in addition to interfering with countries' own policy choices, have frequently led to serious and damaging impacts. [ITUC and TUAC]

Many of the respondents to Theme 2 demanded a broad and inclusive multilateral approach to reform in order to protect the rights of the world's poor, vulnerable, and under-represented. Several highlighted the interconnectedness and the weakness of the international economic system as shown by the speed and intensity from which the collapse in the US housing market spread to the rest of the world. Proposals ranged from strengthening the United Nations and its specialized agencies' role in global economic governance to drastically reducing the power of the Bretton Woods institutions and democratizing their governance. A common thread emerged from many of the submissions: ensuring that all global financial institutions are accountable, democratic in participation, transparent, and capable of linking economic policy with a broad range of issues to achieve socially desirable outcomes.

Placing the UN at the heart of the global reform process

Given the overwhelming consensus from civil society about the lack of representation in the international financial institutions, numerous organizations recommended that the United Nations, as the most globally representative body currently in existence, become the central institution coordinating global economic reform.

The negotiations on a new international financial and economic architecture need to be fully inclusive, therefore the United Nations must be at the heart of the negotiations, with the aim of introducing an equitable, sustainable financial architecture.... [Eurostep]

G7, G8 and G20: Lack of representation

Many commentators were critical of the ability of the G7, G8, and G20 to represent the world's interests; they instead favoured inclusive multilateralism for reform.

In order for developing countries to avoid bleak prospects in the 21st century, they must be given the space and opportunity to strengthen their economies and to develop their social infrastructure, while having environmentally sound practices. For this to happen, there has to be a much more favourable international environment, starting with the democratization of international relations and institutions, so that the South can have an active role in decision-making. [Third World Network]

We believe that reform of the international financial architecture requires the participation of the maximum number of stakeholders: governments from all countries, multilateral agencies and civil society, including women's rights groups. We agree with the Commission that "this unprecedented global financial and economic crisis requires an unprecedented global response," not of a G20 but of a G192. [WIDE]

The challenges the crisis has uncovered in global financial and economic governance calls for its overhaul. The G8 model is becoming archaic. The G20, while representing a greater part of the world's people, still leaves out 172 countries. [CIDSE]

So far there is little evidence that the G20 process will lead to real and effective action. In fact, there is a risk that the "G" groups are a mere window dressing exercise that leads to no reforms but marginalize the UN process. The Commission should ensure that its proposals will be taken into consideration by the G20 and the G8 and that the high level UN conference will indeed initiate a multilateral negotiation process around financial sector reforms and the role, governance and mandate of IFIs. [Oxfam International]

Strengthening the UN, ECOSOC and UN specialized agencies

Strengthening the United Nations' role in global economic governance emerged as a central theme for many organizations, particularly by empowering UN bodies, such as ECOSOC and UNCTAD, who are well-positioned to link economic policy with sustainable development, gender, environment, human rights and poverty eradication concerns.

As it is the most universal and democratic international forum, the United Nations and its agencies should be given the opportunity and resources to maintain their identity, have their approach and development focus reaffirmed, and strengthen their programmes and activities. The strong trend of removing the resources and authority of the UN in global economic and social issues, in favour of the Bretton Woods institutions and the WTO, should be reversed. [Third World Network]

Expertise should be built within the UN system, including UNDP and UNCTAD, in order to reduce reliance on the WB as the only "knowledge-technical assistance-capacity building" institution. The role and mandate of UNCTAD as an authoritative knowledge-based institution whose work aims to help shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development, including gender equality must be strengthened. The UN capacity can be enhanced through regional and national policy analysis and research centres linked with independent academic and non-governmental think tanks. [Women's Working Group on Financing for Development]

Within the UN it is essential to strengthen the different mechanisms that have been put in place to deliver on many of the important commitments on gender equality and women's rights made in several occasions, such as the BPfA [Beijing Platform for Action]…. Furthermore, we also demand to strengthen the role and mandate of UNCTAD as an authoritative knowledge-based institution whose work aims to help *shape current policy debates and thinking on development, with a particular focus on ensuring that domestic policies and international action are mutually supportive in bringing about sustainable development, including gender equality*. [WIDE]

Bringing the BWIs under the United Nations

Numerous organizations recommended placing the Bretton Woods institutions under the control of the UN.

The BWIs must not become de facto organizations of governance in spheres for which they have no competence. Rather, these institutions must be subject to principles agreed by the international community, including the rules of international law that govern international economic relations, environmental protection measures, the protection of minorities and indigenous communities.... What is more, these institutions must be refounded within the United Nations, such that they become truly specialized bodies… of the UN system…. These refounded institutions would become part of a coherent world institutional architecture, which with a stronger, appropriately reformed and democratised UN would represent a solid and genuine example of global democratic governance. And these are the forums from which to undertake a thoroughgoing review of the direction of development assistance, in which donors and recipients, lenders and borrowers share in taking decisions, making commitments and allocating responsibilities. [UBUNTU – World Forum of Civil Society Networks]

UBUNTU also proposed specific roles for a UN-controlled IMF: multilaterally correcting world current-account and exchange-rate imbalances; supervise, control and regulate global movements of finance capital in order to prevent financial crises and ensure world macroeconomic stability; undertake ongoing surveillance activities over all economies; offset the growth of world financial imbalances by means of policy adjustments in the large economies (see also Chapter 4).

A UN Economic and Social Security Council

Many suggestions went beyond empowering ECOSOC and existing UN agencies or reforming the IFIs, to the establishment of a UN Economic and Social Security Council. Such an organization would act as an umbrella to coordinate global economic policy and create linkages with a broad range of issues.

The UN General Assembly, particularly through a strengthened ECOSOC or a UN Economic Security Council should be a forum for peer reviews of issues related to macroeconomic stability as well as supervise the actions and functions of the IMF (until its dissolution), the WB, and the WTO. The ECOSOC or UN Economic Security Council will need to increase its capacity to engage in discussion and debate over these issues. This approach must shift attention away from formula-based assessments such as the WB's CPIA and the use of policy conditionalities attached to lending and aid programmes. [Women's Working Group on Financing for Development]

We need policies that can build just, participatory and sustainable societies. This requires far-reaching reforms of the international financial architecture, which cannot be decided by the G8 or G20 alone, but needs response from the entire international community…. We therefore see an urgent need to create a so-called "Global Leaders Forum" under the UN or a UN "Economic and Social Security

Council" to coordinate policies and redesign the international system. [International Presentation Association of the Sisters of the Presentation]

The United Nations and its specialized agencies in the social, development, environmental, human rights, employment fields (including ECOSOC, DCF [Development Cooperation Forum], the Human Rights Council, ILO, UNEP, UNDP, UNIFEM) should be central to institutional arrangements for effective global governance to deliver social justice and a fair globalization. They should form the core of an Economic and Social Security Council that would be a convening authority to bring the key global governance actors together, with a strong coordinating role, linking the economic, financial and trading systems to policies for employment, development, environmental sustainability, gender justice, and poverty eradication. [ITUC and TUAC]

UN Parliamentary Assembly

Although many contributors recognized that the United Nations is the most representative international institution, a number of organizations recommended that its representativeness should be further strengthened. One organization advocated the establishment of a UN Parliamentary Assembly that could, among other things, *monitor the interlinkages and impact of the international system's financial and economic policies in other fields such as sustainable development, food supply, education, health or eradication of poverty… function as a watchdog ensuring that reforms and regulations are implemented effectively… and gather feedback from the grassroots level and civil society.* [Campaign for the Establishment of a UN Parliamentary Assembly]

New Institution for Financial Sector Surveillance

Another suggestion put forth was the establishment of a Financial Sector Surveillance institution (see also Chapter 1).

A new institution for financial sector surveillance, especially in developed countries whose financial sectors engage in heavy financial product innovation. This new institution could help neutralize the impact of credit rating agencies and other industry-based standards-setting bodies… undertake social monitoring… have full multi-disciplinary research support and be subject to full transparency. An independent evaluation unit should be tasked to design social impact assessments and early warning systems. Regular reporting to the public and to legislatures or national commissions as well as to the UN General Assembly and the ECOSOC is needed. [Women's Working Group on Financing for Development]

Other ideas proposed included some kind of a global taxation regime (see Chapter 1) and a fair and transparent orderly sovereign debt workout mechanism (see Chapter 4).

Reform of the IFIs

Various contributors urged reform of the governance structures of the international financial institutions, including the World Bank and the IMF.

The failure of existing institutions to manage the economy in such a way as to avoid social and environmental damage is intimately connected to their governance *structure…. It is critical that we see fundamental reform of the governance of international financial institutions, including the World Bank and the International Monetary Fund.* [WWF-UK]

The world is now changing, and a changing world requires either a completely new set of institutions or a massive overhaul of the governance of the existing multilateral institutions. [ActionAid International]

Radical reform of the international financial institutions is required if they are to play an effective role in enabling developing countries to manage their own development and sustainable economic growth. [Christian Aid]

Some suggested reform that would entail refocusing the BWIs on their original mandates.

The solution does not lie in increasing the authority of the WB and IMF as they presently stand, in granting these institutions greater control over social and economic development aspects, but in having their working remits refocused back onto their core responsibilities, the tasks for which they were conceived during their creation: providing a stable and orderly international trade and financial system, and facilitating reconstruction and development. [UBUNTU – World Forum of Civil Society Networks]

Another organization went a step further and recommended ending *the power of the multilateral Finance and Trade institutions such as the IMF, the World Bank Group, the regional banks and the WTO.* [Jubilee South]

Regional development banks should become more efficient and gradually replace the infrastructure and similar long-term development financing function of the IMF and World Bank. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

Others groups preferred a less radical approach and proposed ideas within the IMF/World Bank framework.

We believe that the current circumstances demand a root and branch reform of IFI governance structures rather than the creation of "islands of legitimacy" within discredited institutions. [ActionAid International]

Accountability, democracy and transparency

Many organizations emphasized the importance of making the IFIs, including their Boards, more accountable, democratic and transparent. [ActionAid International, Christian Aid, SOLIDAR, Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud), Eurostep, Social Watch, CIDSE]

The IMF lacks political independence from its major equity holders. Current efforts to reform the IMF are unsatisfactory since benefits immediately accrue to the big countries, such as those in the G20, which still leaves out the LDCs and the SIDS. Strengthening the relationship between the BIS and the IMF will not accomplish the *desired need for independent oversight.* [Women's Working Group on Financing for Development]

Some suggested that increased accountability of the IFIs could be achieved by instituting parliamentary reviews of the BWIs.

Real democratic control over IMF and World Bank activities are crucial. It can be achieved through parliamentary reviews. Both institutions should make it mandatory for shareholders to certify that policy positions taken by the Board are regularly reviewed by a committee composed of members of national parliaments or by other representative bodies. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud), SOLIDAR]

Other suggestions were made to enforce already existing IFI statutes:

Holding the BWIs financially accountable for damage done (as in tort law) is enshrined in their statutes. Simply by observing rather than breaching their own statutes, enormously positive effects on development can be achieved. Without this crucial change no reform can be meaningful as new rules would be broken as readily as existing ones. [University of Vienna - individual submission]

Recommendations to make the IFIs more democratic included taking up equal voting rights for developing countries, adopting double-majority voting, and civil society participation.

We need to put people first in reasserting democratic control over and full citizen's participation in public policies and the institutions that guide the global economy at international and national level. The markets need to be at the service of all people not just a happy few. [Eurostep]

To make the Boards of the IFIs more transparent and accountable, recommendations included alternating leadership of these institutions not just between developed countries, but among all countries [ActionAid International], selecting heads on merit (rather than nationality) and considering geographical diversity in selection procedures. [SOLIDAR]

Eliminate economic policy conditionality

Many participants also agreed upon the importance of eliminating economic policy conditionalities that the IFIs attach to their aid and lending programmes, which constrict policy space, [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud), SOLIDAR, ITUC and TUAC, Christian Aid] *burden national economies and contribute to the violation of human rights (poor countries should no longer need to privatise basic social services or cut public sector spending as a precondition for receiving needed funds…)* [Eurostep] and *have frequently led to serious and damaging impacts*. [ITUC and TUAC]

The World Bank and IMF should both separate the provision of grants and loans from technical assistance and policy advice, as the latter is often used to restrict policy choices and reinforce conditions. [Christian Aid]

Reforming the mandates of the IFIs

For the World Bank, one specific proposal recommended: *The International Development Association (IDA) should become an independent grant-giving agency, allocating funding without economic conditions. International Bank for Reconstruction and Development (IBRD) should remain a loan agency, allocating loans without economic policy conditionality. There should be a separate governance structure, giving a more equal weight to customers (middle-income countries) and donors…. It should reform its structural conditions to recognise and reward the central role of the State in the regulation of capital flows and for the provision of essential services.*

The IMF should have a surveillance role to monitor markets and countries' economic policies, which have a potential negative impact on other countries. It should have an early warning system to predict future economic instability. In this regard, the Chiang Mai Initiative provides an example of a function and consensual surveillance mechanism…. The IMF should not provide long-term development lending to low-income countries and focus instead on balance of payments support and monitoring. It should act more like a central bank providing liquidity in an agile manner.… The IMF should expand its shock facility, through the issue of SDR, and ensure rapid disbursements to developing countries in need, unencumbered by structural conditionalities…. The IMF is well placed to assist developing countries strengthen their tax systems, including capacity to plug illicit capital flight and negotiate fairer sharing of natural resource rents. [Christian Aid]

Following the G20 Summit, it is clear that the Fund is going to continue operating in an expanded capacity. To be a legitimate and effective institution, the Fund must… embrace diverse economic philosophies to ensure policy analysis and recommendations derive from data not theory. [New Rules for Global Finance Coalition]

Inclusive policy approach

Many NGOs also stressed the need for broadening the policy frameworks of the IFIs to achieve socially desirable goals, including environmental sustainability, gender-sensitivity, human rights, decent employment and poverty eradication.

Human Rights, including gender equality, full employment and decent work and the necessary means to achieve "dignity for all," should not just be mentioned in the preamble of international agreements, but mechanisms should be put in place that ensure compliance and make global corporations and international organizations accountable to HR obligations. This includes preventing national policy space from being eroded by policy conditionalities that erode democratic governance mechanisms like parliamentary oversight. Lack of oversight and regulation by accountable authorities is one of the main causes of the present financial crisis. [Social Watch]

A key purpose… must be to ensure institutions have the capacity to embed environmental sustainability into the global economy. [WWF-UK]

Women's rights groups underscore the urgent need for a participatory, inclusive, concrete and democratic approach to the international economic and financial *system, with strong equal representation from all countries and from marginalized groups.* [Women's Working Group on Financing for Development]

All plans to reach international financial and monetary stability must be integrated into a broad gender-oriented and socially equitable framework. [WIDE]

In addition, ActionAid International argued that the IFIs *should give sufficient weight to full employment and the reduction of global imbalances in wealth and poverty*.

It is crucial to integrate all international trade and financial institutions into the international human rights system, and to make them submit to agreed instruments, including the Core Labour Standards of the ILO and environmental conventions. [WIDE]

IMF and World Bank should be held accountable to international human rights law, including the International Covenant on Economic, Social and Cultural Rights and the interpreting jurisprudence. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)]

THEME 3: MACROECONOMIC ISSUES AND ADDRESSING THE CRISIS

There is a need for a new growth regime that – as was the case during the post-war period until the early 1980s – ensures balanced real wage growth in line with productivity increases. [ITUC and TUAC]

Most respondents to Theme 3 highlighted the need for governments to undertake new approaches to macroeconomic policy – particularly ones that are nuanced and responsible. In general, they viewed reforms to prevailing macroeconomic policy structures in the context of development and the provision of social protections, especially for the world's poor and vulnerable. Recommendations included policy reforms that specifically address the current financial, food and climate crises (for which the developing world played a minimal role in creating), and provided for social protections and new pathways to sustainable development.

The poor in developing countries will suffer most from the fallout of the global financial crisis for which they bear no responsibility. Export oriented economies are suffering from serious declines in trade credit and export demand, and a correction in asset prices. In addition, falling official development assistance (ODA), foreign direct investment (FDI) and flight of investment capital are leading to increased unemployment in developing countries. [Christian Aid]

Global Stimulus Package

A number of organizations recognized the importance of developed countries maintaining their current ODA commitments in order to ensure developing nations are able to successfully cope with the current economic crisis. Several submissions suggested that not only should current ODA commitments be maintained, but that developing countries should be offered a "global stimulus package." Suggestions for innovative mechanism of financial stimulus – and financing for development more broadly – were discussed under Theme 1 (see Chapter 1).

Compensate developing countries for the devastating impact of the financial crisis on income and employment, by providing a recovery package worth at least $400bn over the next three years. The reduction in GDP growth rates caused by the crisis is going to cost developing countries $750bn by the end of 2010, according to IMF. There is an urgent need for a recovery package for the poorest countries. It will help some 80 countries through the financial crisis and is less than 10% of what the US and EU have already spent bailing out the banks. Such a compensation and stimulus package could include frontloading of 2010 aid pledges and enhanced debt cancellation.

Such a package will enable developing countries to mount their own fiscal stimulus efforts through investment in sectors with high social and economic multiplier effects such as agriculture and land reform, education, health, climate adaptation, and social protection. Maintaining and expanding government spending in these sectors is urgently necessary in the short term to curb the devastating loss of human capital and rise in inequality that the current global recession will otherwise unleash. [ActionAid International]

Meanwhile, national efforts to provide stimulus can be complemented by "global stimulus," such as increased spending on MDGs and other global problems. ODA is both safety net and fiscal stimulus. The provision of aid should be based on the principle of Self-Sufficiency and Solidarity. This is grounded in the commitment among and between developing countries in terms of ensuring food security/national self-sufficiency & access to medicine and access to investment & technology necessary for development. It also includes solidarity and partnership between developed and developing countries in terms of the flow of technology, investment and overseas development assistance, fair and balanced trade rules and the flexibility for developing countries in pursuing macroeconomic policies. This requires plenty of policy space. [Women's Working Group on Financing for Development],

Some envisioned a specific role for the IFIs in the stimulus:

The international community must swiftly expand emergency loans through the IMF and increase assistance from the World Bank and UN agencies to the many developing and emerging countries that are likely to be in situations of balance-of-payments deficits because of the financial crisis and continued high food and fuel prices. [ITUC and TUAC]

Many also offered suggestions on the type of projects to prioritize:

Urge the World Bank to give priority to projects that are employment-intensive, extend social safety nets to the majority of developing-country workers currently without protection, build up public services and infrastructure for sustainable growth. [SOLIDAR]

However, most were quick to caution that any new assistance – particularly from the World Bank and the IMF – should not follow the "one-size-fits-all" approach of the past and emphasized that sufficient policy space should be made available to recipient countries:

The set of macroeconomic policies that forms a key part of the so-called "Washington Consensus" (that puts the stress on "getting prices right," withdrawal of the State from the economy and economic policy-making, heavy reliance on the free market, deregulation, privatization and liberalization, austerity budgets and high interest rates) has been at the centre of conditionalities attached to IMF and World Bank loans for indebted countries. These policies came under heavy criticism, especially in the wake of the Asian crisis and are now widely discredited as the current crisis unfolds. The "one-size-fits-all" approach towards economic reform and policy for countries in financial crisis should be changed to a more appropriate approach of seeking the right mix of policies to suit the particular conditions facing each country. Such conditions may vary from country to country, and thus the policy mix may also be different for different cases. Thus, the framework for macroeconomic policy advice or conditionality should be reformed to take into account these differences, and in light of lessons to be learnt about which strategies have and have not worked in different circumstances. Countries must have the flexibility to choose from policy options, as it is not appropriate to present them with advice or conditions based on a single model or option. [Third World Network]

Most developing countries are operating pro-cyclically, often through no fault of their own, but because they are pressured by the IFIs to practice "fiscal discipline." The international community must be more supportive of recovery programmes implemented by developing countries, which can prevent poverty from growing further and accelerate the global recovery, and this requires increased financial assistance from IFIs and donor countries. [ITUC and TUAC]

The deregulation, liberalization and privatization conditionalities of the IFIs, in addition to interfering with countries' own policy choices, have frequently led to serious and damaging impacts. [Instead], *financial support to countries… should protect employment and social safety nets. It should be provided quickly to help boost demand, and stimulate growth.* [ITUC and TUAC]

Debt Cancellation to help counter-cyclical measures
A number of organizations argued that debt relief is critical to cope with the crisis in the short term and to promote growth in the long-term. New debt should not be incurred by developing countries, nor should it carry new conditionalities, in their efforts to deal with the current global economic crisis.

A new package of debt cancellation would release funds in developing countries which can be used to stimulate the economy and provide social protection to the most vulnerable, as is being done in the North. Eligibility for debt cancellation should be based on a measure of debt sustainability connected to human development, which would mean much greater debt cancellation for many more countries. [Jubilee Debt Campaign UK]

Debt cancellation should be expanded to all the world's most impoverished countries (IDA only) without harmful conditions. The serious hardships imposed on middle- and low-income countries by the global financial crisis demand such a move. Furthermore, the increasing debt levels in developing countries over the past year are not the consequence of domestic policy failures, but rather are the result of exogenous causes including shocks in energy and food prices and now erosion of export earnings because of financial turmoil originating in developed countries. Developing countries should not have to shoulder the financial burden of debt that has been caused by exogenous and imported crises. [Health GAP, on behalf of a US civil society coalition]

Trade dimensions of financial stimulus
Many submissions questioned the prevailing global trade paradigm and cited it as a major cause of the current crisis:

From a macroeconomic perspective, the impacts of the crisis on developing countries can be attributed to several macroeconomic difficulties stemming from movements in their current accounts. Reform proposals that tackle macroeconomic policy-making should deliberately focus on generating an environment more conducive to different patterns of trade, with more balanced domestic and external market dynamics.

The source of woes for many developing countries is the implementation of a model of reforms that gave centrality to a paradigm of export-led growth while not ensuring *the financial gains derived from exports ultimately accrue to them. This model of export-led reforms did not take into consideration the importance of ensuring that trade became a means for the stable provision of development finance or the need for its articulation with the domestic economy.* [International Working Group on Trade-Finance Linkages- Steering Committee]

Indeed, for many, the current crisis has exposed export-led growth as a failed development model. To illustrate this point, one submission noted that: *Trade-related macroeconomic difficulties are not confined to the current account. The patterns of foreign capital inflows were also tied, in more or less direct ways, to the high rates of export growth. Rather than generate income growth, they tended to reinforce unhealthy patterns of export-related income growth. Now, at a time that the situation has reversed, with the prices of natural resources falling, retreating investment is showing also its destabilizing face. This retreat should not be seen as a withdrawal merely symmetrical to the increase in resources that were originally brought by foreign investors. While investment in the good times was able to ride on a number of State guarantees and subsidies, including regulatory and tax concessions, pro-investment reforms skewed the sharing of the profits away from the national economy.* [International Working Group on Trade-Finance Linkages]

The balance between interior and exterior markets needs to be revised, with the aim of revitalizing the domestic demand. The crisis revealed the decay in growth policies based on export focused approaches and over-reliance on foreign direct investment. [Arab NGO Network for Development]

Moreover, there are many social dimensions to trade liberalization:

The prevailing assumption by mainstream economists that trade liberalisation is a gender neutral process that increases overall prosperity and wellbeing overlooks the deleterious social impacts from greater dependence of the global market. The proliferation of wide-ranging and ambitious bilateral free trade agreements, which serves mainly developed countries' business interests at the expenses of local people's livelihoods must be reviewed. The often adverse, differential impacts of economic liberalisation on women relative to men are not sufficiently taken into account. It is essential to establish coherence between the global commitments to gender and social equality, women's rights, environmental protection and international trade policies. [Women's Working Group on Financing for Development]

…all world leaders must take this opportunity to step back and develop a fresh approach to the global trading system that prioritises justice and equity, including enforceable language on labour and environmental standards, and which builds economic relationships fit to deal with the triple financial, climate and food crises of the 21st century. This new approach to global trade must work in the interests of people and the environment whilst strengthening local and regional supply chains and ensuring dialogue and cooperation at the international level. [WWF-UK]

Therefore, for those that addressed trade, the most important issue was that trade agreements allow developing countries the necessary policy space to undertake counter-cyclical measures that will allow them to better cope not only with the current crisis but to also implement policies and programmes that can allow for improved social protection and development.

Developing country governments' scope to use trade policy to safeguard vulnerable sectors and promote development should be enhanced. Developing countries should have the right to develop and protect small-scale agriculture to promote food security, livelihood security and rural development…. Rich countries must avoid financial and trade protectionism, which will have a negative impact on developing countries. [ActionAid International]

Trade and investment policies must recognise policy space and regulatory capacities of governments to shape economic and social development policies that serve the most vulnerable of their societies. They should support local and regional production, exchange and supply, as the basis of needs and rights oriented provisioning and trade. [WIDE]

In this vein, current trade negotiations should be revisited or, in the view of some, suspended:

The financial service liberalization and deregulation measures included in bilateral and multilateral trade and investment agreements need to be reviewed. The Doha Round trade negotiations should separate the financial services agreements from the "single undertaking" package, so that any gains for developing countries in market access are not undermined by the increased vulnerability introduced by being forced to resign to key financial control and oversight mechanisms.

All current trade negotiations both on the multilateral and bilateral level must be put on hold until the necessary firewalls to protect the financial system from future shocks are put into place, and until a better understanding is reached on the links between trade policy and financial stability at this moment. Both bilateral and multilateral (GATS) trade agreements that call for the deregulation of financial services and the elimination of performance requirements for foreign investments should be renegotiated. [Social Watch]

Moreover, trade agreements should allow countries to develop more diverse trade profiles:

As critical aspects of generating more resilient macroeconomic policy frameworks in developing countries the Commission should emphasize the importance of measures to diversify trade profiles (both products and markets), manage investment, rebalance profit- and loss-sharing in infrastructure lending, extract a fair share of export income and encourage investment in the development of local processing infrastructure in area of origin of natural resources. [International Working Group on Trade-Finance Linkages- Steering Committee]

In addition, the current crisis should not give rise to aggressive protectionist measures on the part of developed countries, particularly policies that would weaken the trade capacities of developing countries:

Developed countries must refrain from imposing barriers to international commerce in an effort to protect their economies by impoverishing those of poorer countries. [NGO Committee on Financing for Development]

PRO-EMPLOYMENT AND DEVELOPMENT STRATEGIES

Pro-employment and development macroeconomic policies were seen to play a critical role in effectively combating the current economic crisis. In particular, central banks had to include these broader objectives in their mandate.

Ensuring that central banks are publicly accountable for their actions, have governance structures that allow for trade union views to be taken on board, incorporate the realization of full employment among their primary objectives, and have the necessary mandate to deter and detect speculative financial bubbles. [ITUC and TUAC]

It was also noted that central banks must play a crucial role in directing savings to development and environmental objectives:

Central banks can also be involved in credit allocation to influence where savings may be invested but also to support the work of government-owned or controlled banks, such as land banks, development banks, export-import banks, among others. These latter set of banks have specific development mandates such that central banks need to be more conscious of the balancing act that they do with respect to price stability and its relationship with other development goals. A final consideration is the role of the central bank in promoting financial sector deepening and capital market development. Regulatory structures need to be aware that in developing countries more work needs to be done to bridge the gap between micro-finance and banking and investment sectors. Given these other responsibilities, central banks need to be encouraged to report their activities to legislative bodies and the general public. [Women's Working Group on Financing for Development]

Central banks had to be made publicly accountable.

[C]entral banks must become publicly accountable and dependent on publicly democratic political institutions. [SOMO]

Another organization argued that governments should *overhaul central banks in line with democratically determined social, environmental and expansionary (to counter the recession) objectives, and make them publicly accountable institutions.* [Focus on the Global South]

Moreover, fiscal and monetary policies had to be pro-employment and targeted at the "real economy."

Fiscal stabilizers such as unemployment benefit schemes must be strengthened and supplemented by direct job creation schemes, where necessary. Fiscal stimuli should target increases in aggregate demand of sufficient magnitude to revitalize the real economy: employment, wage and household disposable income growth. Tax and expenditure measures must be targeted at low and middle income families who are *suffering most in the current situation and who, having higher consumption rates, will feed this back into consumption, production and hence employment most rapidly*.

In developing and emerging countries, governments should counter economic slowdown through monetary policy, by supporting job creation programmes and extending or creating social safety nets. [ITUC and TUAC]

Investing in people and the planet: Public provision of social and environmental services and protections

Anti-cyclical stimulus packages to reactivate the economy should at the same time invest in human resources, by improving the educational and health infrastructure and the provision of essential services like clean water, sanitation and electricity. [Social Watch]

Almost all submissions raised concern over the well-being of people all over the world in the wake of the current crisis. They argued that social protections – often the first victim of budget cuts – should instead be expanded in this time of crisis. In fact, many further argued that these measures will have a positive long-term impact on the development of all countries.

Invest in people – their education and health, and in care for the very young and old – by strengthening public provision of essential services to ensure universal access to education, basic health care, water and housing, and to increase secure jobs and pensions within the public sector, as well as train the millions of teachers and instructors necessary to provide the education and skills that underpin the real economy and for retraining of working people as economies restructure; in the North, take up the slack in the construction industry to meet historic, current and future demand by investing in social housing, whilst supporting governments in the South to do the same. [SOLIDAR]

Building, re-building, and strengthening social insurance systems, safety nets and social protection need are needed. This is not to preclude the design of policies that will take countries to the point where they are able to achieve universal social provisioning. [Women's Working Group on Financing for Development]

Gender dimensions

Traditionally vulnerable populations were of great concern to many respondents. Several pointed to the precarious position of women:

Access to finance for women and the provision of health insurance – including access to reproductive health care services, maternity benefits, affordable child care – is also critical. This must go well beyond the common practice of opening channels for women to access micro-credits and must take into consideration and tackle structural inequalities that have prevented many women and other marginalized groups from accessing funding and loans. [Women's Working Group on Financing for Development]

Women often work in the "unpaid" or informal sector and therefore:

New indicators must be developed to measure the impact of gender inequality on economic growth by measuring the value of women's unpaid work as well as by developing performance indicators to measure progress in introducing and implementing gender-responsive approach to public finances.… The connection between paid and unpaid work is still ignored and the shift in costs from the paid to the unpaid sector leads to increased burdens for women. It is important to pay attention to the imbalance between the productive economy and the reproductive economy or care economy, which is largely dependent on women who function continuously in spite of crisis as if their capacity and the capacity of households are elastic. [Women's Working Group on Financing for Development]

In addressing this crisis WIDE demands policy coherence that ensures "a critical and socially progressive linkage between social policy, macroeconomic policy and development." This will require going beyond the MDGs and being accountable to agreed women's rights frameworks such as the Beijing Platform for Action (BPfA) or the Convention on the Elimination of All Forms of Discrimination against Women. [WIDE]

Links between the food, climate and financial crises

Several respondents noted linkages between the "food crisis" and the current financial crisis and suggested strategies for addressing the former in the context of the latter.

Agree emergency responses to the continuing food crisis, including action to counter speculation in food markets and to extend emergency support to the poorest; support the expansion of sustainable food production and small-scale agriculture. [SOLIDAR]

One organization argued that responses to the current global food and climate crises should not be financed through loans.

The food crisis and the climate crisis render peoples of the South, and in particular women who dominate the food sector, more vulnerable to the accumulation of new loans. Financing to address the food and climate crises should not be in the form of loans. Governments should not offer or enter into loan-financing for seed purchases and other food and agriculture programmes, or loan-financing of climate mitigation and adaptation mechanisms.... Other problems that cause the huge flow of resources out of developing countries should be addressed, as these contribute to increasing the debt burden, erode the benefits of debt cancellation and lead to the re-accumulation of debt. These include unfair trade agreements, tax holidays for multinational corporations, unregulated profit remittances and capital flows. [South-North International Campaign on Illegitimate Debt]

Investing in the transition to a green global economy

Organizations also urged the rebuilding of a green global economy in order to preserve global resources and allow for future generations to continue growth.

Any national monetary and fiscal measures to boost the global economy will fail in the medium and long term if they are not founded on the principle of environmental sustainability. Capital investment must be used to tackle climate change and build energy security by driving forward the transition to a low carbon and resource-

efficient global economy. Specific measures should include major public investment in renewable energy production, infrastructure and research; energy and resource efficiency programmes; retrofitting existing private and public buildings with insulation and efficient heating and cooling systems; ensuring new publicly funded developments are to the highest energy efficiency specifications; incentivising private sector energy and resource efficiency; education and training for environmentally sustainable development; improvement, electrification and decarbonisation of public transport systems; reuse, remanufacturing and recycling technologies for all waste. [WWF-UK]

Rebuild a green global economy that respects and preserves our global common goods, prevents further global warming and ensures a sustainable, safe and clean environment for future generations. The introduction of a carbon tax, in this context, can be an efficient measure not just to combat global warming but also to compensate developing countries for the additional asymmetries created by increased subsidies and protectionism in developed countries. [Social Watch]

Pensions

Some respondents highlighted pensions as a social protection measure of particular importance.

To be effective, it is important that social protection schemes are not made over-complicated. Universal pension programmes… are the simplest social protection schemes to implement and can reach a significant proportion of vulnerable families. Putting in place more complicated social protection systems – such as means-tested programmes and conditional cash transfers – stretches the capacity of developing country governments and evidence indicates that they are likely to fail in achieving their target of benefiting the poorest families. [HelpAge International]

Citing the example of New Zealand, this NGO noted that not only are national pension schemes feasible and provide an important social safety net for older persons, but they can also help to stimulate the economy:

There is strong evidence that non-contributory pension schemes that reach all older people are very effective in reducing poverty among older people and their families. Based on the model of the New Zealand pension scheme – which, according to the OECD, has been the most effective public pension scheme in reducing old age poverty among developed countries. National pension schemes have a critical role in stimulating the national economy. [HelpAge International]

Other groups noted that any pension scheme should be stable and participatory:

Promoting workers' representation in pension funds and (financial) companies' boards and ensuring they have a say in investment decisions.... Enhancing the social purpose of pension schemes to provide decent retirement in both pension funding and investment regulations. [ITUC and TUAC]

Ensure stability for ordinary investment such as pension funds and health insurance. [ActionAid International]

THEME 4: REFORMING THE GLOBAL FINANCIAL ARCHITECTURE

Solutions to the present crises should not be premised on re-establishing or saving a failed system, but on changing it. The UN can and must rise to this occasion. [Jubilee South]

I. A NEW ARCHITECTURE FOR SOVEREIGN DEBT

A fair and transparent orderly sovereign debt workout mechanism

Many called for a fair and transparent orderly debt workout mechanism which was strongly supported by the G77 group of developing countries at the 2008 UN Financing for Development conference in Doha. [Eurostep, Women's Working Group on Financing for Development, Jubilee South, Jubilee Debt Campaign UK, SOMO, erlassjahr.de ("International Insolvency Framework")]

Existing arenas for addressing debt disputes are dominated by lenders, where they serve as both interested parties and judges. There must be a new forum to which debt disputes can be brought, where parties are given equal treatment and judgements are based on impartial evaluation of cases. [South-North Campaign on Illegitimate Debt]

Included was the proposal for a "debt standstill and orderly debt workout mechanism" detailed by UNCTAD in its Trade and Development Report 1998 in the wake of the East Asian crisis. It would imply that a country could declare a standstill on payment and be allowed time to work out a restructuring of its loans, while creditors would agree to this "breathing space" instead of trying to enforce payment. This proposal is an extension of national bankruptcy procedures (similar to Chapter 11 of the United States Bankruptcy Code) to the international level for countries facing debt difficulties. [Third World Network] Some suggested that internationalizing Chapter 9 of the same code (focusing on US municipal insolvency) was more appropriate as it applies to public borrowing entities. [University of Vienna - individual submission]

A moratorium on all sovereign debt payments should be undertaken, without needing to wait for a balance of payments crisis as a trigger. [Women's Working Group on Financing for Development]

Cancelling odious and illegitimate debt

Many suggestions emphasized the new debt architecture should address "odious and illegitimate debt," a concept that received growing legal and political interest and recognition. A number of submissions noted recent precedents:

- The justification for the cancellation of Iraq's debt focused on the odiousness of the previous Iraqi government.
- Norway's unilateral decision to cancel several claims on the basis of "failed development policy" and "co-responsibility" was a historic precedent, and has already opened up discussions on odious or illegitimate debt in international arenas including UNCTAD, the World Bank, and the Paris Club.

[Women's Working Group on Financing for Development, Jubilee South, South-North Campaign on Illegitimate Debt]

[The UN should] address the issue of social, historic and ecological debts, in the context of responding to the crises-provoked needs and the challenges of long-term system transformation. An important way of responding to the needs of those peoples and countries in situation of poverty or exclusion, heightened now by the impact of the global crises, is not through "more aid" but by recognizing the existence of these debts to the peoples and countries of the South and taking action to secure restitution and reparations. [Jubilee South]

Comprehensive country debt audits
The comprehensive debt audit conducted by Ecuador and the suspension of payments on some claims subject to further investigation were cited by many contributors as a model the UN should encourage and support. [Jubilee South, South-North Campaign on Illegitimate Debt, Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud), CIDSE]

We urge the UN to encourage and support comprehensive country debt audits. Comprehensive debt audits, both governmental as well as independent citizens' audits, are useful tools for not only for uncovering the impact of the debts and the nature of the debts. Audits can also address the structural and policy flaws that have led to the accumulation of unsustainable and illegitimate debt. The government of Ecuador is leading the way by launching the first official country debt audit process. [South-North Campaign on Illegitimate Debt]

Audits are important tools for popular movements, citizens and governments to evaluate the impact and legitimacy of the system of indebtedness and to establish the basis for sanctioning those responsible for illegitimate and illicit actions, recovering what has been unjustly collected or stolen, and instituting new alternatives for the sovereign control over financial resources. In the present crisis conjuncture, and as a necessary step toward any transformation in the international monetary and financial system, the realization of comprehensive country-based audits, articulated regionally and/or globally, can be a powerful tool for galvanizing public debate and participation in the processes of change as well as impacting in the balance of forces opposed to such change. [Jubilee South]

Curbing vulture funds
A number of debt campaign networks also urged action against so-called "vulture funds," which buy up debts at a steep discount and pursue the debtor country for the full amount, often through the courts.

In the current system, vulture funds act as "rogue creditors" by taking advantage of funds freed up by the debt restructuring negotiated by other creditors, taking their claims to court with the goal of winning full repayment and more. [Jubilee USA Network]

Proposals included legally limiting the amount of money a fund can make on sovereign debt to drastically reduce "the incentive for hedge funds to pursue vulture activity." The limit for profits could be the purchase price of the debt plus a *reasonable rate of interest. As most vultures sue in courts in the United States, the UK and France, laws limiting profits in those countries would be a significant step toward curtailing vulture activity. Creditors should also be persuaded not to on-sell claims. In a May 2007 press release, Paris Club countries committed not to sell their claims on HIPC countries to creditors who do not intend to provide debt relief under the HIPC initiative. However, until more creditors agree to participate and sign onto the commitment, it will do little to prevent vulture activity. Creditor countries outside the Paris Club should sign a pledge similar to the Paris Club commitment not to on–sell sovereign debt owed by low-income countries.* [Jubilee USA Network]

This aggressive approach is typical of the rogue behaviour that has been exposed in the financial markets in recent months, where pursuit of profit has been put before the sorts of values, such as human development and freedom from poverty, to which the market must be made to serve. [Jubilee Debt Campaign UK]

Redefining the debt sustainability framework

There was a wide call to review and redefine the Debt Sustainability Framework, involving not only governments but also civil society and giving centrality to human development goals and human rights, including gender equality and women's empowerment.

As a result of the current economic downturn, there is a great probability that many developing countries will be forced to default on their debt repayments. Despite the various multilateral and bilateral debt relief operations, developing country external debt increased to US$ 3.35 trillion in 2008. The Debt Sustainability Framework (DSF) of the IMF and World Bank has been ineffective...

A different approach to comprehensively address the process of borrowing and lending is needed. Responsible lending must be the cornerstone and can only be achieved by the adoption of a binding legal framework that deters creditors from engaging in irresponsible lending. The international community has repeatedly issued calls for more responsible lending for several years, including at G8 Summits, in the G20, in the OECD and in the UN General Assembly. Such a framework would take account of both the origin and impact of the debts and offer equal treatment to both debtors and creditors, ultimately affecting the incentives not only for debtors, but also for lenders, and preventing renewed indebtedness on a sustained basis. The framework could be in the form of an impartial and transparent process for resolving debt crises and disputes. The EURODAD Charter of Responsible Financing (2008), which outlines the essential components of a responsible loan, is an important step towards this goal. [Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud), CIDSE]

A systematic and rigorous criteria to assess the impact of the execution of debt repayments and structural reform programmes on the realization of fundamental economic, social and cultural rights, as provided for in the international human rights instruments is needed. [Women's Working Group on Financing for Development]

Eligibility for debt relief should be expanded to all countries that need it to meet the MDGs. [Jubilee USA Network]

A common platform or covenant for principled and responsible financing
Beyond redefining debt sustainability, proposals included a different approach to comprehensively address the process of borrowing and lending, both in terms of quantity and quality to guide implementation of a sovereign debt workout mechanism.

The international community has increasingly issued calls for more "responsible lending" in the past several years, including at G8 summits, in the G20, at the Organisation for Economic Co-operation and Development (OECD), and in the United Nations General Assembly. It is clear that we must tackle the problem of debt accumulation and re-accumulation in a forward-looking way that looks comprehensively at borrowing and lending and locates these processes in the broader context of the international financial system. We urge the UN to begin a process of developing a common platform or code, which should involve not only Member States but also civil society organizations. [South-North Campaign on Illegitimate Debt]

II. REDRESSING GLOBAL IMBALANCES AND ASYMMETRIES

Many contributions proposed various measures to address global imbalances and asymmetries in the global economy that contributed to the current and past crises and reinforced global inequities, notably in terms of South-North net financial flows and unequal capabilities in crisis response. These proposals were often couched in insisting on the need to understand imbalances and asymmetries from a broader perspective than is commonly discussed in financial architecture policy debates.

Recovery packages should be designed to redress the underlying fundamental economic imbalances that have produced the current crises. These are notably the imbalance between the US and other parts of the global economy, the imbalance between finance and the real economy and the imbalance of bargaining power between workers and their employers. Those economies that have surpluses should redirect them to supporting domestic consumption and productive investment. Trade union rights should be fully respected and promoted so that workers can improve their living standards. [ITUC and TUAC]

Dealing with exchange rate gyrations
A number of contributions identified sharp gyrations in exchange rates as a major source of instability and inequity, affecting trade relations often more fundamentally than trade determinants on the official trade agenda, calling for the UN to play a leading role in addressing this perennial issue.

Given the wild swings of exchange rates in some currencies, it is not tenable to hold that currency movements are only reflections of changes in fundamental market values of these currencies. Instability of currency rates has become a major contributing factor to overall financial instability…As part of a reform of the international financial architecture, a more stable system of currency exchange rates needs to be established…The root of the problem lies in failure to establish a stable international system of exchange rates after the breakdown of the Bretton Woods arrangements in the 1970s. Yet the need to establish a global system of exchange rates is not even on the agenda for reform of the international financial architecture."

Third World Network's research project on financial policies in Asia (2007-2009) suggests that are serious dangers of divergent movements in exchange rates within Asia, which could lead to destructive "beggar-thy-neighbour" policies in the region. This concern is reflected in other developing regions and on a global level as well. It is hoped that the Commission's recommendations will help bring multilateral and regional approaches to exchange rate management onto the financial architecture reform agenda, including by considering UNCTAD's recent proposals to that effect [a multilateral exchange rate regime to stave off currency speculation]. [Third World Network]

The original Bretton Woods system was conceived as a complement to the multilateral trade system, which in order to properly function required a certain degree of exchange rate stability. The IMF was originally created to perform such function but, since the fall of the par value Bretton Woods system in the 1970s, instability and misalignments of currency exchange rates have become the norm. Increased levels of exchange rate volatility have a strong impact on trade performance through channels such as the levels of domestic investment, the variations of relative prices of export products (which, in turn, affect competitiveness of the economies), the price of access to finance for production. The value of market access concessions and price-based trade liberalization measures that receive so much attention in trade negotiations has been at times dramatically reduced or become uncertain due to the exchange rate fluctuations. These changes, it is worth noting, do not affect all countries equally, having asymmetric impacts on the trade performance of developing countries, as compared to developed ones.

Not only has the IMF lost this function with the fall of the Bretton Wood system in the 1970s, but we are of the view it is in no position to regain capacity to perform such function in the future. There is more than enough evidence of this in failed attempts of the last ten years, first through the "spillover" assessment in Art. IV consultations, later through the "multilateral consultations on surveillance."

There is an urgent need to establish alternative credible mechanisms for the multilateral management of exchange rates. Establishing an institution concerned with orderly coordination among hard currency issuers is a desirable goal but the issues above are likely to remain as long as the domestic currency of a country continues to be used widely as main international trading and reserve currency. So steps should be taken to move towards a system that relies on a multilateral currency for trading and reserve purposes.

Strengthened regional and sub-regional schemes for monetary cooperation hold the key to lower dependence on the currencies of a few dominant countries. Ultimately, a more balanced and development friendly system for multilateral management of exchange rates will be one that builds on, and seeks to gradually coordinate, South-South regional currencies and currency units.

Indeed, multilateral exchange rate coordination is more feasible, as a first step, at the regional or sub-regional level, and it would lead, by supporting intra-regional trade, to diversifying trade products and markets, thereby deepening the resilience of developing country economies to external shocks like the current one.

All these reforms, however, are likely to take a long time. Some degree of currency exchange rate instability will presumably continue to exist, leaving non-reserve currency countries to disproportionately bear its impacts, so a regular and predictable mechanism to ensure that developing countries can opt-out of their trade obligations to the extent required to compensate for such impacts on their economies should also be set in place. By the same token, while global institutions to manage exchange rates of trend-makers are missing, it is all the more necessary that trend-takers (mostly poor and undiversified economies) can enjoy the necessary space to manage their exchange rates. [International Working Group on Trade-Finance Linkages- Steering Committee]

Regional monetary and reserve arrangements

Regional approaches as an alternative or stepping stone to multilateral exchange rate stabilization were emphasized by a number of participants, often described in the context of more comprehensive regional development agendas, including the *Banco del Sur* in Latin America, and regional currency arrangements and reserve pooling, notably the "Ecuadorian proposal" involving intensified regional monetary cooperation towards regional exchange rate mechanisms, the pooling of reserves and their convertibility into a new regional currency. [Oxfam International, Women's Working Group on Financing for Development, Jubilee South, Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud), CIDSE)

Implement an international monetary system based on a new system of reserves, including the creation of regional reserve currencies in order to end the current supremacy of the dollar and to ensure international financial stability. ["Let's put finance in its place!" Call for the signature of NGOs, trade unions and social movements, Belem, 1 February 2009, over 360 signatures)

An international financial facility funded by countries with excess reserves has merits but should not preclude work being done on regional monetary arrangements, such as the Chiang Mai Initiative, the Bahrain Initiative or the Ecuadorian proposal. Among these efforts, the bilateral and multilateral currency swaps are a cooperative approach to deal with reserve imbalances although there has been relatively little take up on this as the aforementioned initiatives take time to mature. Policy conditionalities should not be used on these occasions. [Women's Working Group on Financing for Development]

Support the construction of autonomous, regionally-based financing for development institutions and mechanisms based on economic, social, ecological, gender and intergenerational justice. The creation of ALBA, Peoples' Trade Agreements, and other South-South alliances of solidarity and complementarity, including also the South Bank and other new monetary and financial stabilization arrangements in South America, are potential avenues for confronting the consequences of the crises, recovering sovereignty and opening new horizons of more fundamental change. [Jubilee South]

A new global reserve system?

A few participants contributed and commented on proposals for more fundamental global financial architecture reform involving the creation of a new global reserve system to anchor exchange rates, with “seigniorage” (emission) capacities, and involving symmetrical disciplines on surplus and deficit countries.

Proposals ranged from the IMF issuing Special Drawing Rights for financial and currency stabilization as well as development objectives [Christian Aid] to the establishment of an International Money Clearing Unit (IMCU) that only central banks would hold among nations that would abide by the rules of a clearing union system. This system would involve symmetrical responsibilities among surplus and deficit countries of the kind John Maynard Keynes had proposed but failed to achieve at the 1944 Bretton Woods Conference. [*Journal of Post-Keynesian Economics* – submission by the Editor]

Others remained more circumspect about such global monetary solutions:

It is very difficult to support proposals to establish single global currency given the structural inequalities in powers that would affect decisions over issuance and control of the global currency. The issuance of Special Drawing Rights may be tainted by the IMF’s loss of credibility. There have also been proposals to use a GDP-weighted basket of real exchange rates (also known as a world currency unit) as an anchor for the world’s currencies. This currency unit helps reduce sovereign risk because it is standardized and inflation adjusted. The suggestion is to link this currency unit the domestic currency board or trade-weighted basket of currencies. It will still be difficult to currencies to work with. The question remains how economies become systemically significant enough for their currencies to command confidence in the international monetary system. [Women’s Working Group on Financing for Development]

A key question in the possible move to a new system of fixed exchange rates was how the initial rate of each country would be set in the context of power imbalances associated with asymmetric currency values. Until such political obstacles could be surmounted, many preferred regional approaches, and insisted on the priority of re-legitimizing capital controls (or “capital management techniques”) at the national/regional level and in the global policy/regulatory as an immediate means to manage destabilizing capital movements (including speculative attacks on national currencies), screen the quality of capital entries and prevent capital flight, as discussed in the Chapter 1 on Financial Regulation. [Third World Network, Social Watch, Women’s Working Group on Financing for Development, SOMO, Oxfam International]

List of Civil Society Contributors

(In an order beginning with the last submission received first)

1. SustainUS
2. Women's Working Group on Financing for Development
3. International Trade Union Confederation (ITUC) and The Trade Union Advisory Committee (TUAC)
4. Jubilee South
5. SOLIDAR (European network of NGOs and labour movement organisations)
6. Servas International
7. Servas
8. RESULTS Educational Fund and Canter for Economic Governance and AIDS in Africa
9. Health GAP (Global Access Project), on behalf of a U.S. civil society coalition
10. Centre for Research on Multinational Corporations (SOMO)
11. Social Watch
12. Nord Sud XXI
13. International Working Group on Trade-Finance Linkages- Steering Committee
14. Institute for Agriculture and Trade Policy (IATP)
15. Consejo De Desarrollo Socioeconomico Para Sudamerica Codesesa
16. Bread for all (on behalf of Bread for all, Swiss Catholic Lenten Fund, Alliance Sud)
17. Alsek Research
18. The Oil Drum
19. Christian Aid
20. Central Única dos Trabalhadores (CUT) Brazil
21. Bretton Woods Project
22. NGO Committee for Social Development
23. International Presentation Association of the Sisters of the Presentation
24. Association for Protection of Environment and culture
25. Erlassjahr-Year of Relief 2000
26. European Solidarity Towards Equal Participation of People (Eurostep)
27. Fondation Charles Leopold Mayer
28. World Federation of United Nations Associations (WFUNA)
29. Friends of the Earth - Latvia
30. World Council of Churches
31. European Network on Debt and Development (EURODAD)
32. Oxfam International
33. Centre de recherche et de promotion pour le sauvegarde des sites et monuments historiques en Afrique
34. Third World Network (TWN)
35. Arab NGO Network for Development (ANND)
36. World Wide Fund for Nature – United Kingdom (WWF-UK)
37. ActionAid International
38. Jubilee Debt Campaign
39. City Montessori School (CMS)
40. International Union for Land Value Taxation and Free Trade
41. Collectif Inter- Associatif pour la Réalisation des Activités Scientifiques et Techniques jeunes au Cameroun (CIRASTIC)
42. International Valuation Standards Council
43. Banca Etica
44. The Eastern African Sub-regional Support Initiative for the Advancement of Women
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47. UBUNTU - World Forum of Civil Society Networks
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49. HelpAge International
50. Neighbourhood community network

51. Focus on the Global South
52. Tax Justice Network
53. Chung-hua Institution for Economic Research
54. Lembaga Studi Pers Pembangunan
55. Jubilee USA Network
56. Godavari Research Academy Promoting Research Services
57. Mesaros Inc.
58. United Nations Association of Turkey - Youth Section
59. International Gender and Trade Network (IGTN)-Afrique
60. Shaping Tomorrow Foresight Network
61. Maryknoll Office for Global Concerns
62. OneAim.org
63. Consumers International
64. Working for a Sane Alternative
65. Banktrack
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67. World Goodwill
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92. Forum on Geonomics
93. Financial Transparancy Awareness
94. Friends of Ozone Africa
95. New Rules for Global Finance

Acknowledgements

NGLS would like to thank all those that contributed submissions to this process. This was a very successful consultation both in the quantity and the quality of the submissions received.

NGLS would also like to gratefully acknowledge the support of Professor Barry Herman, Visiting Senior Fellow, The New School, New York. Professor Herman led a team of New School students who helped to sort through the submissions and provided valuable inputs in the drafting of the report. The students were: Asch Harwood, Mariluz Lopez, William Post, Bradley F. Seelig, Christian Sempere and Jon Wallach.

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About NGLS:

The United Nations´ Non-Governmental Liaison Service (NGLS) promotes constructive relations between the United Nations, governments and a growing range of non-state actors, in particular civil society organizations. By providing strategic information, analysis and support, NGLS is part of the United Nations´ efforts to build coherence around cross-cutting and emerging issues on the UN´s agenda; to strengthen multistakeholder policy dialogue; and to ensure meaningful civil society engagement in UN processes.

NGLS set up a special website for this process. This website contains many of the submissions received in their entirety. It can be viewed at www.un-ngls.org/cfr