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Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus

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Multi-stakeholder round tables under the overall theme "Looking ahead: further cooperative actions in financing for development", focusing on the following six major thematic areas

Round table 6

Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading system in support of development

Summary of discussion

1. Round table 6 was co-chaired by Joon Oh, Deputy Minister for Foreign Affairs of the Republic of Korea, and Jorge Valero, Vice-Minister for North America and Multilateral Affairs of the Bolivarian Republic of Venezuela. The Under-Secretary-General for Economic and Social Affairs of the United Nations Secretariat moderated the panel. Presentations were made by the following panellists: Hany Dimian, Deputy Chairman of the International Monetary and Financial Committee and Deputy Finance Minister of Egypt; John Eatwell, Professor, University of Cambridge; Adib Mayaleh, Chair of the Group of 24, Governor of the Central Bank of Syria; Louis Michel, European Commissioner for Development and Humanitarian Aid; Joakim Stymne, State Secretary, International Development Cooperation, Ministry of Foreign Affairs of Sweden; and Heidemarie Wieczorek-Zeul, Federal Minister for Economic Cooperation and Development of Germany, Special Envoy of the Secretary-General for the Conference.

2. Mr. Sha, introducing the subject, identified the two major issues of the systemic agenda: (a) specific policies to support the more effective functioning and coordination of the international financial architecture; and (b) strengthening the role of developing countries and transition economies in global economic governance. Recently, the international community attention had been focused largely on the challenge of crafting policy responses to the weaknesses in the financial system, exposed by the ongoing global financial turmoil. Those responses were spawning additional challenges in adapting the governance structures of the international institutions and other global decision-making bodies. The financial crisis had broadened the consensus on the urgency of a far-reaching reform of global

economic governance and the international financial architecture. Mr. Sha noted that the President of the General Assembly had created a Commission of Experts on Reform of the International Monetary and Financial System, tasked with a report on proposals to reconfigure the mechanisms and institutions of global economic governance, based on lessons learned from the financial crisis. The Doha Conference was another important step in that direction. Mr. Sha noted the call from the Conference to hold a United Nations conference at the highest level on the world financial and economic crisis and its impact on development.

3. Mr. Dimian shared the recent observation that at the current time markets were less concerned about the return on money and more on the return of the money — indicating that a crisis of confidence had engulfed the global financial system. In restoring confidence, global coordination was needed. While fiscal stimulus packages were an important measure to restore market confidence, the global community had to step up efforts for the prudent regulation of financial markets. The problem was not the existence of an early warning system but the lack of enforceability of such warnings on countries which accumulated financial fragility caused by the sale of financial assets by firms that later on turned out to "troubled".

4. Mr. Eatwell stated that while Governments were currently struggling with short-term responses to the international economic and financial crisis, in the medium term Governments had to agree on effective global regulatory reform. The current financial crisis represented a shock to both the theory and practice of financial development and regulation. While risks undertaken by individual private actors had a systemic effect, individual firms could not tackle a systemic crisis when it erupted. Financial regulation in the system had been heavily biased at the firm level and that had been evident in such initiatives as Basel II and the Capital Requirement Directive of the European Union. That would require a fundamental overhaul of the international financial architecture. A regulatory approach should focus less on the differentiation between types of financial institutions and more on the scale of leverage that institutions engaged in. There was an urgent need for an economic and political consensus on global multilateral financial reform and a Bretton Woods II system. The Commission established by the President of the General Assembly could respond to that need. The United Nations and the United Nations system had an important role to play in systemic issues since they were essentially of a political nature.

5. Mr. Michel stressed that the current financial crisis should not provide an occasion for donor countries to shirk their responsibility in terms of meeting their official development assistance (ODA) commitments. He emphasized that the European Union (EU) would meet its targets of 0.56 per cent of gross domestic product (GDP) for ODA by 2010 and 0.70 per cent by 2015. The threat of a deep crisis was very real. Protectionist tendencies should be resisted. Climate change had been mostly caused by the actions of developed countries and therefore assistance on climate change grounds should be additional to aid already committed. The overall goals of the Monterrey Consensus should be realized, including effective and transparent taxation. The current crisis required countries to be less "ego-centric" and to mobilize together the political will to resolve it.

6. Mr. Mayaleh emphasized the two key issues in the systemic chapter — financial architecture and the voice and participation of developing countries. Global finance should contribute to development, not undermine it. Since

Monterrey, increasing global inequality had not been addressed. Surveillance mechanisms had been asymmetric. The Monterrey Consensus called for the establishment of an orderly debt-restructuring mechanism and that objective needed to be reinvigorated. The International Monetary Fund (IMF) needed to review the conditionalities associated with its instruments and should reconsider those that blocked their use by developing countries. It was an important moment to reform the governance of the international financial institutions in order to restore the legitimacy and effectiveness of those institutions. Deliberations on those reforms should include countries that were not members of the Group of 20. Many of those countries were members of the Group of 24.

7. Mr. Stymne stressed that a global crisis required global solutions. Regulations should be effective and not excessive. While one must be careful, in creating new institutions, to recognize the potential of existing institutions, it was important to strengthen the integrity and accountability of the international financial institutions. There was a need to establish a broader ownership of the Bretton Woods institutions, and the reform process itself should be inclusive, legitimate and transparent. Mr. Stymne pointed out that in the specific area of increasing the resources of the Bretton Woods institutions, Sweden could be an important contributor but it was not a member of the Group of 20 and thus it would be “counterproductive” to limit the discussion of resources to that Group. The United Nations had an important multilateral role in fostering governance and rule of law. There was also a need to successfully conclude the Doha round of trade negotiations.

8. Ms. Wieczorek-Zeul stated that the time had come for a new global deal. We must see the current crisis as an opportunity and seize it to fight the economic crisis and prevent it from becoming a humanitarian crisis in developing countries. We needed to rethink the relationship between markets and the role of States. The lack of a clear set of international principles for the management and resolution of financial crises was a major problem. The Group of 20 had recommended and decided on measures to manage the international financial system, but without inclusive international representation. The crisis also suggested that the current international financial institutions did not have the capacity to effectively address such situations. Better macroeconomic policy coordination was required.

9. Following the presentations, an interactive debate was held. Civil society participants emphasized the importance of protecting the participation of the sector as the source of new and critical ideas. The business sector representative stressed the capabilities that the business sector could contribute to government policy design and implementation in addressing systemic issues and their strong willingness to do so. Other participants proposed that IMF should focus more on overall systemic issues, including addressing the need for new forms of global regulation. IMF needed to strengthen its multilateral surveillance and pay more attention to the consistency of macroeconomic policies of developed countries and not be distracted by the public sector governance issues in developing countries from its true mandate. IMF should be active in promoting the reform of the international monetary system, including better management of external shocks, macroeconomic policy coordination, efficient multilateral liquidity provision and consideration of a debt workout mechanism.