



Eurodad's brief analysis of the UN Conference draft outcome document

The 18 May 2009 draft outcome document for the UN conference on the Financial and Economic Crisis and its Impact on Development is brief on the causes and impacts of the crisis but rich in proposals for "prompt and decisive action" in four areas: making the stimulus work for all; containing the effects of the crisis and improving resilience for the future; improved regulation and monitoring; and reforming the international financial and economic governance. In many regards, it is weaker than the 8 May version released by the UN President of the General Assembly, which reflected more accurately some of the institutional reforms and proposals for new institutions put forward by the UN Commission of Experts - the so-called "Stiglitz Commission". However, some key points are retained. At this stage it is crucial that some of these points remain in the document and that they are strengthened to the possible extent in the negotiations that will take place during the month of June, in the run-up to the 24-26 June Conference in New York.

Analysis of the draft outcome document

Making the stimulus work for all

The document encourages using the fiscal space available to implement counter-cyclical measures to combat the effects of the crisis. It also recognises that most developing countries lack the fiscal space to do so. Therefore a much larger amount of finance will be needed, particularly for low-income countries. It welcomes the G20 \$1.1 trillion deal but acknowledges that less than \$20 billion will be available for low-income countries.

The call for additional resources is welcome, but the document fails to make any explicit commitments. There is just the very minimal call on donors to keep existing aid commitments. There is none to use the means available for the IMF and Multilateral Development Banks to increase grants and highly concessional resources for low-income countries (i.e. use of IMF gold sales proceeds; use of a greater share of reflows from non-concessional lending; stretching these institutions' balance sheets as they face a low risk of default; or even for richer countries to provide resources for low-income countries to the IMF through the New Arrangements to Borrow without charging interest). Lack of specificity may dangerously lead to what we have witnessed in the past weeks since the G20 agreement in London: grand announcements have not been accompanied by actual commitment of specific envelopes of resources for the world's poorest countries.

Slightly more promising are the mentions of establishing new credit facilities - one of the recommendations of the UN Commission of Experts, the so-called Stiglitz Commission. Also positive is the call to end the policy conditionalities that have exacerbated the financial and economic challenges faced by developing countries. If well implemented, the former could provide an alternative to the IMF and a precedent of a financial institution based on a strengthened democratic governance – where lenders and creditors have the same decision-making power. Despite the very careful phrasing the mention of conditionalities is a recognition that the types of policies that international financial institutions have been imposing on developing countries have increased their vulnerabilities and exacerbated the effects of the crisis.

Key paragraphs:

20. "We support the urgent establishment of new credit facilities as necessary for intermediation between surplus countries and those that most need financing for the disbursement of the additional funding required to address the impact of the current crisis and to allow for appropriate countercyclical policy measures"

21. "We call for a reformed lending paradigm and the prompt end to unwarranted conditionalities, which curtail the individualized options available to developing countries and needlessly exacerbate the financial, economic and developmental challenges faced by these countries."

Contain the effects of the crisis and improve future global resilience

This section underscores the need for a people-centered development, and the need to establish a global trade and monetary system which promotes development. The downside is, again, that there are no specific and far-reaching commitments on how this principles should be materialised. The restatement of aid commitments and the call to accelerate previous commitments regarding debt relief fall short of meeting the expectations and needs created by a crisis that developing countries are not responsible for. Likewise the call to protect social expenditures, and the promotion of long term goals such as food security, clean energy, and health and education are welcome, but fail to address the challenge of rethinking the current inequitable and unsustainable economic paradigm - both in developed and developing countries.

The call to flexibilise the Debt Sustainability Framework is of particular concern. Civil society has long criticised the fundamentals of the DSF, which does not take into account concerns related to the pressing needs of social and developmental expenditure of developing countries. The call to accelerate previous commitments on debt relief is welcome, but more should be done in terms of establishing a moratorium for debt servicing, and debt servicing cancellation as a measure to increase fiscal space for developing countries in the context of the crisis.

The call for an early implementation of the \$250 billion Special Drawing Rights (SDR) allocation agreed by the G20 in April is also welcome, as well as the call for a reform of the global reserve system. However, SDR resources are borrowed in principle at non-concessional interest rates, which limits the use that low income countries can make of this type of liquidity. The reformed global reserve system is closely linked to SDRs, and thus to the IMF. The point should be clearly made that increased IMF resources should come hand in hand with deeper and more far-reaching reforms of the institution. Several civil society groups have raised concerns about the "blank cheque" which is currently being written to the IMF. The UN document should ensure that this is immediately stopped and far-reaching reforms to the institution as a requirement for any increase of resources for this institution.

Key paragraphs:

27. "The global crisis cannot be an excuse to avoid existing aid commitments." ... "We reiterate the importance for donors to work on national timetables, by the end of 2010, to increase aid levels within their respective budget allocation processes toward achieving the established ODA targets."

29. "We affirm that the appropriate measures must be taken to minimize the impact of the crisis on the indebtedness of developing states and to avoid a new debt crisis. In that regard, we support increased flexibility of the Debt Sustainability Framework and in eligibility for debt relief; the provision of increased funds for debt rollover; innovative debt swap criteria; increased concessionality, and call on states to accelerate previous commitments regarding debt relief."

32. "We commit to undertake further examination of the role of enhanced SDRs in the expansion of liquidity, stabilization of the reserve system, and the promotion of development. We strongly support and call for early implementation of a new general SDR allocation of at least \$250 billion."

33. "There are calls for a reform of the global reserve system to overcome the insufficiencies of the current system. We recommend to study the feasibility of a reserve system with a more prominent and effective role of the SDR. The global reserve system could be complemented by a stronger role for regional commercial and reserve arrangements, including among developing countries such as the ASEAN+3 \$125 billion facility, and the ALBA SUCRE arrangement."

Improved regulation and monitoring

Although this section recognises the deficiencies in the international regulatory framework, including the shadow financial system and secret jurisdictions, it is shy in putting forward the measures and institutions that should be established to combat a speculative, non-transparent and destabilising financial system which has harmed the world economy, but will particularly have devastating effects on developing countries. The mention to a new cooperative tax environment which developing countries could benefit from is welcome, as it is the explicit mention to curb illicit financial flows. This is a slight step forward from Doha Outcome Document which refrained from tacking together (in the same paragraph) the issue of taxation and illicit financial flows. However, there is no mention to what specific steps should be taking - such as the establishment of improved accounting standards like country-by-country reporting of multinational companies. On the last section entitled "The Way Forward", the document remains as weak as the Doha Outcome Document in calling for "strengthening" - instead of "upgrading" - the UN Tax Committee.

Key paragraphs:

35. "We recognize the strong need for truly multilateral and inclusive cooperation on international tax matters within the United Nations system. Developing countries should be able to secure the benefits of a new cooperative tax environment."

36. "Illicit financial flows out of developing countries are estimated to amount to several times global ODA and have a harmful effect on development. Measures to enhance regulation of and transparency in the shadow and regular financial system must therefore include steps to curb illicit financial flows."

Reform international financial and economic governance

This section on IFIs reform is probably one of the weakest of the document. The call to reform and modernise the IFIs is weak as it almost focuses on governance, crisis response and crisis prevention (surveillance) only. Despite these are crucial and urgent areas that should be reform, there is no clear acknowledgment of the "trend-setting" role that IFIs have on the terms of aid and development finance, their convening roles among different donors, and the development model that they promote. These are key areas in which the IFIs should also undergo a major reform. Their role in these areas (which are mentioned mostly in the first two sections) should be clearly acknowledged, as well as their flawed advice in the past - and still to a great extent in the present - and the need for urgent reform at a time when it seems that they will be unavoidable re-empowered as a result of the current crisis.

Moreover, mentions to governance are narrowly limited to the ongoing reforms at the World Bank and the IMF, which civil society has repeatedly warned that will only lead to glacial progress and will fail to address the fundamental democratic deficit and lack of legitimacy of these institutions.

Key paragraphs:

40. "International Financial Institutions must have a clear development orientation and must be responsive to needs and circumstances of their clients. Accordingly, we call for improved integration of global public goods within the development mandate of the International Financial Institutions."

41 (and 42-43). "We stress the urgent need for ambitious and expeditious reform of the governance structures of Bretton Woods Institutions and make them more representative and legitimate, in order to enhance the perspective, voice and participation of developing countries."

44. "We agree that the heads and senior leadership of the International Financial Institutions must be appointed through open, transparent, and merit-based selection processes, and without regard to nationality."

45. "We call for mechanisms to ensure increased cooperation and exchanges between the United Nations and International Financial Institutions."

The Way Forward

To implement the proposed measures, the draft has a final section on "The Way Forward", where perhaps the most interesting ideas are placed. Foremost among these is the proposal to set up a new Global Economic Council under the UN to provide coordination and oversight of responses to address the global challenges. This is probably the most important and controversial idea in the document. This kind of strengthening of the UN's role is disliked by the powerful countries.

Another idea is to set up a Panel of Experts (drawn from academics, social movements and the private sector) to give advice to the UN General Assembly on economic, financial, trade and regulatory issues and

actions. The draft also calls for a review of how the UN Economic and Social Council (ECOSOC) can be strengthened and to review the agreement between the UN and the World Bank and International Monetary Fund.

The draft also wants the Conference to remain "open". To follow up on the conference, seven working groups are to be created on the global stimulus; finance for restructuring and survival; trade and debt relief; global and regional reserve systems; regulation and coordination of the global economy; restructuring international institutions; and the role of the UN.

Key paragraphs:

52. "Analyze and make recommendations for strengthening the Committee of Experts on International Cooperation on Tax Matters."

53.1 "Establish a multi-stakeholder Panel of Experts to offer independent advice to the General Assembly and to the Economic and Social Council on issues that they shall deem relevant to each of the main areas of global economic, financial, trade, and regulatory coordination and action."

53.2 "Establish a new Global Economic Council that is part of the United Nations system which provides coordination and oversight of concerted responses in addressing the broader range of global challenges."

53.4 "Review the agreement between the United Nations and the Bretton Woods institutions in collaboration with these institutions, focusing particular attention on the mechanisms for enhancing coordination and cooperation between the respective institutions, as well as the opportunities for contributing to strengthening the development mandates and effectiveness of both institutions."

Follow-up and contacts

For more information on the work that Eurodad and its member organisations are doing on the United Nations Conference on the Financial and Economic Crisis and Development, see:

<http://www.eurodad.org/debt/?id=120&item=0&ArticleShowall=true#articles>.

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