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ROUND TABLE ON SYSTEMIC ISSUES HEARS CALL FOR GREATER DEVELOPING-WORLD 'VOICE' IN BRETTON WOODS SYSTEM

A reformed global financial architecture must ensure adequate representation for developing countries in the key processes of the Bretton Woods system, the Chair of the Group of Twenty-Four on International Monetary Affairs and Development (G-24) said today, as he urged political decision makers gathered in Doha, Qatar, to press the 60-year-old development-lending institutions to make good on their commitments to enhance legitimacy, transparency and effectiveness.

During a round-table discussion on "Addressing systemic issues: enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development", Adib Mayaleh recalled that the 2002 Monterrey Consensus on development financing had, among other things, stressed the need for greater oversight of global financial systems, and to ensure that the globalization of finances contributed to, rather than undermined, development. Yet, the fallout from the current financial crisis illustrated the fundamental weaknesses of some of the very international organizations charged with promoting economic stability and sustainable development.

"We have a significant agenda before us, much of which will remain unfinished without the real reform of international financial architecture," he said, setting the stage for the sixth and final round table of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus. Mr. Mayaleh, Governor of the Central Bank of Syria, said the processes of the World Bank and the International Monetary Fund (IMF) must be overhauled so the turmoil in financial markets did not spark macroeconomic instability in developing countries. Such reform would also help those countries build capacities against future external economic shocks.

Among other recommendations, he said re-launching the global financial systems required improved access to financing for developing countries. To that end, the IMF mechanisms for short-term liquidity must be re-examined and their conditions simplified to eliminate measures that might discourage small States from making use of them. Most importantly, however, the IMF and World Bank must extend greater voting power to developing countries, especially emerging economies and dynamic developing nations.

The Bretton Woods institutions should also become more transparent, accountable and effective, he stressed. The IMF should agree to work more closely with member countries to ensure fair exchange-rate policies, and the World Bank should ensure its programmes reflected the priorities of the people it was designed to serve. While the IMF had made some initial amendments

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to its voting structure in 2007, those changes had not been thoroughgoing and much more should be done to open the way for wider reform and expanded participation by developing countries.

The multi-stakeholder discussion was co-chaired by Joon Oh, Deputy Minister for Foreign Affairs of the Republic of Korea, and Jorge Valera, Vice-Minister for North America and Multilateral Affairs of Venezuela. It was moderated by Sha Zukang, United Nations Under-Secretary-General for Economic and Social Affairs.

The expert panel comprised: Hany Dimian, Deputy Chairman of the International Monetary and Financial Committee and Deputy Minister for Finance of Egypt; John Eatwell, Professor, University of Cambridge; Adib Mayaleh, Chair of the G-24 and Governor of the Central Bank of Syria; Louis Michel, European Commissioner for Development and Humanitarian Aid; Joakim Stymne, State Secretary for International Development Cooperation in the Ministry of Foreign Affairs of Sweden; and Heidemarie Wieczorek-Zeul, Special Envoy of the Secretary-General for the Doha Conference and Federal Minister for Economic Cooperation and Development of Germany.

Stressing the vital need for strategies to keep the "Monterrey spirit" alive, Under-Secretary-General Sha hailed several recent moves by political decision makers to respond to the global financial crisis and bolster the development financing agenda, including the recent meeting of the G-20 in Washington, D.C., and the decision by the President of the General Assembly to set up a high-level task force to review the global financial system, including the World Bank and the IMF, in response to the current crises that were affecting all countries, large and small.

He said the 192-Member General Assembly, as a truly universal body, should further expand its participation in the reform process, and applauded the decision by Member States, during negotiations last night on the Doha outcome document, to convene, at the highest level and at the earliest opportunity, an international conference to consider the world economic and financial crisis. In the wake of the crisis, all intergovernmental initiatives, including scheduled subsequent meetings of the G-20, and efforts to strengthen follow-up to the Monterrey Consensus must address the root causes of "this purely manmade disaster".

In his concluding remarks to the round table, the Under-Secretary-General said fundamental changes and reforms were obviously needed, as were political will and political consensus on the way forward. Taking such decisions required the participation of all stakeholders, including Member States, specialized agencies and civil society. The reform process had only just begun, and the United Nations system had an important role to play as it could ensure that the voices of all countries and stakeholders were heard in order to ensure more credible global economic governance.

Mr. Michel said that, because the global finance system and its requirements had completely changed since the creation of the Bretton Woods institutions, and in light of the global and multifaceted aspects of the current crisis, the necessity of building a global alliance was clear. At the G-20 summit, the European Union had played a decisive role because the Europeans had been united on the issue of adopting standards and norms in the financial system. However, that process would be difficult, but because it concerned aspects of global governance, it was certain to be met with conservative resistance.

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He said a free market economy could only be virtuous within an economic framework that was regulated and harmonized, stressing that the multiplicity of challenges would require new, more, effective multilateral systems and institutions. Moreover, developing countries must be included in negotiations on reforming the financial institutions. Those reforms must include gender issues, among other things. If the challenges of the current crisis were addressed with creativity, ambition and vision, and with less egocentrism, they could be used to mobilize the world in order to make it more just, free and peaceful.

Mr. Eatwell said the crisis had been a profound shock both to the theory and the practice of international financial regulation and management. Indeed, there was a feeling that it was the most sophisticated and most regulated firms that had failed. So it was not rogue elements, fraud or even greed, but a fundamentally bad system design that was at the heart of the crisis. The main flaw was the persistence of the belief that a single firm could simultaneously protect against external shocks and regulate systemic risks.

He said he was concerned that thinking along those lines had been integrated into the latest pieces of capital requirements regulation of the European Union and the Basel II agreement. A huge amount of work had gone into a system that had recently been revealed as flawed. It was clear that an effective regulatory system must be, in some sense, international, but regulators were trapped in nation States. The challenge was how to formulate regulatory proposals while deciding how they would be enforced and which entity would monitor them -- the IMF, some structure built around the G-20 or an entirely new mechanism.

"Now is the time for globally coordinated moves," agreed Mr. Dimian, who said the current crisis had largely become one of confidence. The ambitious bailout plans of some $1.5 trillion had been critical in "tamping the fire down", or at least in stopping it from spreading. Bailouts, however helpful, were no replacement for much-need institutional and structural reforms. Fiscal stimulus packages could restore confidence; moreover, confidence could be restored by empowering surveillance and supervisory bodies and improving governance frameworks. Enhanced interaction between supervisors, standard-setters and surveillance institutions was indispensable.

Commitments had been made to ensure that capital flows to emerging markets and developing economies did not stop during the crisis, he continued. The IMF had introduced a short-term liquidity facility and the World Bank had introduced vehicles to finance infrastructure development. However, those measures would need time to take effect. The crisis had triggered the will for needed global institutional reforms, including higher standards, empowered surveillance and more institutionalized crisis-prevention. There must be commitment by the major world economies to secure sufficient capital flows to emerging markets and developing countries.

Taking a different stance from most of the other panellists, Mr. Stymne said that in a time of multiple crises, it was evident that the relevance of the Bretton Woods institutions was increasing. There had been many calls for reform of those institutions, but one should be cautious. Indeed, every effort should be made to make full use of existing institutions rather than inventing new ones. The current institutions could only be effective if Member States allowed them to be so. Regulations for the financial market should be few, effective, but not excessive.

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He said the declaration from the recent G-20 summit constituted a balanced agreement and pointed to the need to strengthen international financial institutions, particularly the IMF. There was a need to focus on the supervision of cross-border financial institutions and enhancing crisis-management capabilities. Still, like other speakers, he stressed the vital importance for developing and transition countries to acquire increased influence and representation in the Bretton Woods institutions. Multilateral cooperation must be characterized by constructive participation by all parties.

Unfortunately, there had been increased polarization among Member States in the United Nations regarding development issues, Mr. Stymne said. Yet, the Organization played an important normative role that complemented that of the international financial institutions. Also, it was of the utmost importance to reach a swift and ambitious conclusion of the Doha Development Round. The answer to the financial crisis was not protectionism, but the strengthening of free trade. It was now more important than ever to strengthen the World Trade Organization and the wider multilateral trade system, and to improve the integration of developing countries into global trade markets.

Ms. Wieczorek-Zeul called for swift, comprehensive action to deal with the crisis, which was a disaster of policies that favoured markets over State action and regulation. More countries were being tipped into poverty, the Millennium Development Goals were in danger, and growth had slowed dramatically in formerly dynamic economies. It was clear that a new balance between markets and State action was needed and that global economic governance must evolve. The G-20 was a very good first step in laying out a blueprint for comprehensive and inclusive action, especially on regulatory matters.

She agreed with Mr. Stymne that, rather than invent completely new institutions, existing mechanisms should be revamped. Also, additional development financing should be provided for developing countries in the current crisis, and, going forward, Africa and the African Union should have an enhanced voice in decision-making. Finally, there was a need for a "Global New Deal" for the twenty-first century, which would promote solidarity among different groups and be driven by strengthened cooperation between Governments and civil society. Such a plan should also support broad achievement of the Millennium Development Goals and ensure that funds supporting basic social systems, upon which women and children depended, would not be curtailed. "This is a time for looking outward, not inward," she said.

Speakers from the floor stressed that developing countries had not been involved in the short-term actions aimed at stemming the financial turmoil. They were, in the words of Algeria's Finance Minister, "mere sideline observers" suffering from the events. He asked whether the short-term solutions did not contain the germ of a future crisis as adaptive reactions could put the brake on growth, particularly that of developing countries. The "Group of 77" developing countries and China was not represented in the Group of 24, he pointed out.

Other speakers, including the representative of Indonesia, said economies must adopt more responsible domestic monetary policies which stabilized rates and stimulated growth. While appreciating the launching of the IMF short-term liquidity facility, he warned that a stigma could be associated with the use of such funds, which could result in the downgrading of credit ratings. There was a need for better regulations and greater transparency on the part of credit agencies.

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Ecuador’s Minister for Economic Policy drew attention to some issues that required urgent attention, including the risk of devaluation and trade wars. Another issue was the manner in which billions of Latin American investment dollars in Europe and Asia had fallen into the hands of speculators. The solidity of international monetary reserves was undermined because of speculation. There was a need to identify mechanisms by which multilateral and regional agreements, backed by a global coordination mechanism, would prevent multilateral and regional economic agreements.

A representative of Social Watch, speaking on behalf of non-governmental organizations participating in the Conference, drew attention to the disproportionate impact that the crisis was having on women, who were the first to lose jobs and the last to regain employment. He also pointed to the relationship between human individuals and macroeconomic policies, saying that human rights were part of, and indeed key to, a solution.

A representative of New Rules for Global Finance pointed out that the purpose of financing was to serve the needs of the real people within the limits of what the planet could provide. There should be no off-the-books financial products and all financial products should be stress-tested for “toxicity”. Another civil society speaker was among audience members who stressed the need to scale up resources to address the impact of climate change, noting, however, that such resources must not be combined with development assistance. Indeed, they must be derived from other sources so as not to undercut the efforts of developing countries to improve education, health and social services. She also stressed the need to integrate gender into responses to the current parallel crises, including efforts to mitigate global warming.

Comparing the crises to the use of weapons of mass destruction, a representative of the business sector called for “changing the paradigm” so that the private sector and Governments worked together, noting that the lack of cooperation between them had been one of the systemic failures. She suggested calling together the best minds among the public and private sectors to create an analysis framework to be used by policymakers and investors alike in order to reach better decisions.

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