Civil Society Key Recommendations

for the UN Conference on the World Financial and Economic Crisis and its Impact on Development (June 09) and its follow-up

EXECUTIVE SUMMARY

We are facing a global systemic financial and economic crisis, which originated in the increasing financialization of the global economy, coupled with deregulation, over-reliance on trade liberalization and the use of financial instruments that created systemic risks and asymmetries. These factors have resulted in a financial industry disconnected from the real productive economy and in a severe slow-down in the real economy, with tremendous human and social costs. Before the financial crisis, the world was already suffering from a food crisis, and facing environmental challenges of historic dimensions. With this Conference, the UN as the most comprehensive intergovernmental forum, has a historic opportunity to start a longer-term inclusive process for a fundamental transformation of the economic and financial system and to make social and gender justice and the fulfillment of human and environmental rights the key objectives of all crisis-related measures. As a first step, global fiscal stimulus measures are crucial, both for industrialized countries, economies in transition, and developing countries, to stimulate their economies in a sustainable manner, and implement counter-cyclical policies, without, however, reverting to the same export-led growth model based on unsustainable over-production and over-consumption patterns. However, equally important are concrete commitments for an intergovernmental time-bound process towards long-term structural reforms to prevent future financial bubbles and economic busts. This UN Conference must be the beginning of a process for systemic change, crisis resolution and economic justice between developed and developing countries and economies in transition.

International Stimulus Package for Development

- Stimulus packages or support programs in industrialized countries must not distort the economic playing field or create a new form of financial protectionism.
- In the interest of all, developed countries should help to **finance rescue packages** in developing countries, and as proposed by the “Stiglitz Commission” they should invest part of their own fiscal stimulus packages in developing countries in a way that respects national ownership of their own development processes. This support should be additional to existing commitments on aid.
- Developing countries must benefit fully from these stimulus packages, through special **grant** arrangements and ODA, and not through debt-creating loans. All crisis grants must come **without any policy conditions** except for conditions necessary to fulfill fiduciary obligations.
- Donor countries have to deliver on their aid promises and must convert them into legally binding commitments under the appropriate UN forum. They should step up efforts to reach the target of 0.7% and not back-track on the G8 promise to increase annual aid by US$50bn (half of which would go to Africa) by 2010. We acknowledge the EU proposal regarding short-term ODA commitment. However, more ambitious measures are needed. According to DESA, a compensatory and development financing plan, totaling 1$ trillion for 2009-2010, is needed for developing countries. Implementation should be overseen
by a stimulus working group that should report to the General Assembly in September on steps taken.

- Governments should introduce an internationally coordinated **Financial Transaction Tax** in order to mobilize additional resources for a short-term Global Stimulus Fund and the longer-term implementation of the internationally agreed development goals, including the Millennium Development Goals.
- International stimulus packages should serve the goals of economic recovery, social justice, environmental protection and sustainable use of natural resources.
- Unconditional **debt cancellation** and repudiation of illegitimate debt are immediate steps that must be taken to increase the availability of needed resources in developing countries. Governments should establish a new debt architecture that is inclusive, participatory and democratically accountable to all, and provides for fair and transparent resolutions.
- Fiscal stimulus should be spent on **social protection measures** with a focus on vulnerability populations, especially women and ethnic minorities, and on building equitable and sustainable growth. It is vital to promote investments in human capital, in particular in education and health, as well to invest in job creation.
- Fiscal stabilizers such as unemployment benefit schemes must be supplemented by **direct job creation schemes**, with an emphasis on decent jobs. Fiscal stimuli should target increases in aggregate demand of sufficient magnitude to revitalize the real economy: employment, wage and household disposable income growth in ways that are compatible with the urgent need to address climate change and ecological destruction. In addition, non-debt generating resources and transfer of appropriate technology have to be made available to developing countries to cover the costs of mitigating and adapting to climate change, in accordance with the Climate Convention.

**Systemic Reform to Provide Global Financial and Economic Regulation**

- In the short-term, a **Global Panel on Systemic Risks in the World Economy** should be established, following the model of the Intergovernmental Panel on Climate Change, bringing together academics, civil society and policy makers.
- Further to strengthening ECOSOC, the Outcome Document should commit members to establish a **Financial Products Safety Commission**. The Commission would be a low cost means for evaluating proposed financial products submitted anonymously by national regulatory authorities to determine the degree of their risk for the financial system and their potential benefits for realizing UN member agreed goals.
- The Committee of Experts on International Cooperation on Tax Matters should be upgraded to an intergovernmental **Commission on Tax Matters** as a functional commission of ECOSOC by the end of 2009, with a commitment to formulating globally-enforceable rules that will put an end to tax evasion and avoidance. For the longer term, the Outcome Document should envisage the establishment of a new international institution for tax cooperation.
- In line with the general consensus on the need to revamp and strengthen regulatory tools for finance, the trade and investment negotiations at all levels, especially WTO negotiations on financial services and regional and bilateral Free Trade Agreement negotiations, must be put on hold.
- The discussion started within the G20 on a "**Global Charter for Sustainable Economic Activity**" must take place in the only legitimate body to develop and endorse such a framework – in the UN.
- In line with the general consensus on the need to revamp and strengthen regulatory tools for finance, the trade and investment negotiations at all levels that affect the utilization of such tools, especially WTO and regional and bilateral Free Trade Agreement negotiations on financial services, should be put on hold.
- There should be a new agreement of cooperation between the **UN and the Bretton-Woods-Institutions** in order to enhance coordination and policy coherence.
The governance structure of the **International Financial Institutions** must be based on democratic principles, with the involvement of all stakeholders - not just shareholders - in a transparent, consultative and inclusive process. As a first step, the World Bank would move to a parity of voice and vote for borrowing and lending countries, as called for by the G24.

Many new and ongoing programs of the International Financial Institutions still contain unwarranted conditionalities. We therefore call for an end to the practice of policy conditionality, which has undermined democratic decision making and often imposed harmful policies on countries. All countries have the democratic sovereign right to govern their own economies, to implement countercyclical policies aimed at stimulating aggregate demand, and achieve sustainable growth with equity in the real economy. Policy conditionality impedes this sovereign right.

The right of developing countries to determine their own **policies must be respected**; this necessitates elimination of policy conditionalities imposed by IFIs and restrictions on national policy space instituted through trade and investment agreements.

The IMF and World Bank should cease to intervene in the development and implementation of national trade and investment policies. Trade and investment agreements should be reviewed so as to redress the asymmetric impact that development finance institutions and agencies have had on the negotiating space of recipient countries. The remit of quasi-juridical forums, such as the World Banks ICSID, should be reviewed and reversed to determine what future role they may have in financing for development. There is need for urgent establishment of effective mechanisms to redress the asymmetric impact that development finance institutions and agencies have had on the negotiating space of recipient countries.

In the longer-term, a **Global Economic Council** should be created within the UN system - as a globally representative forum to address areas of concern in the functioning of the global economic system in a comprehensive way. The Council would provide oversight to deal with pressing economic and financial issues in a comprehensive way.

A **Global Reserve System** should be created in a way that will support the development needs of poorer countries and serve to stabilize the global financial system. As a first step, allocations of Special Drawing Rights (SDRs) through the IMF should be regularized, made on the basis of need and not quota, and subject to the oversight of a specially created, democratic body. Costs for developing countries’ use of SDRs should be made fixed, and preferably financed from other resources.

An important first step after the UN Conference is the creation of a robust **follow-up mechanism**, which ensures all member-state and institutional participation at the appropriate and highest level. **Working groups** on the follow-up on specific agreements of the Outcome Document have to be created immediately to discuss how the proposals would be implemented. The working groups would have to report to the General Assembly meeting in March.

**Conclusion**

The outcome document of this UN High Level Conference should reflect the urgency of the situation and contain short-term measures, to be implemented immediately as a response to the crisis. These measures must include sufficient non-debt generating funding for a global stimulus package for developing countries and economies in transition. Donor ODA commitments must be upheld according to a binding schedule.

We trust that the outcome document will specify the necessary short-term measures and also contains concrete commitments for an intergovernmental time-bound process towards long-term structural reforms. This UN Conference must be the beginning of a process for systemic change, crisis resolution and social-economic and environmental justice among developed and developing countries, and economies in transition.