
Conference on the World Financial and Economic Crisis and Its Impact on Development

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General debate on the world financial and economic
crisis and its impact on development

The World Financial and Economic Crisis and its Impact on Development

Report of the Secretary-General

Summary

The world is currently faced with the worst recession since the 1930s, which resulted from an unsustainable growth pattern as well as systemic weaknesses in the global economy. Though the crisis did not originate there, developing countries are being severely hit through weaker trade, tighter global financing conditions and lower remittances. Poverty and hunger are increasing and major reversals in hard-won gains towards the millennium development goals (MDGs) will likely be seen. Children, women, the working poor, migrants and people already at disadvantage will be hit first. There is an increased risk of accelerated environmental degradation and social tensions are on the increase. The international community is urged to respond to this challenge by ambitiously reforming international economic governance, with a critical role for the United Nations, in order to address the financial and economic crisis in an integrated fashion by creating the international institutional arrangements conducive to equitable and sustainable development.

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I. The setting

1. **The world is mired in its worst recession since the 1930s.** The rapidly unfolding global financial and economic crisis has severely disrupted economic growth worldwide and is setting back progress towards achievement of the MDGs and the other internationally agreed development goals. The United Nations' most recent global forecast estimates that world income per capita could drop by 3.7 per cent in 2009. Unemployment rates are expected to rise to double digits in developed countries and tens of millions in developing countries will become unemployed and hundreds of millions are expected to join the ranks of the working poor, if the right policies to redress the situation are not implemented in time.

2. **The present crisis emerges on the back of an unsustainable global growth pattern** characterized by strong consumer demand in the United States, funded by easy credit and a housing price bubble. Far-reaching financial deregulation facilitated a massive and unfettered expansion of new financial instruments, such as top-rated securitized sub-prime mortgage lending, sold on financial markets worldwide. This growth pattern enabled strong expansion of trade and high commodity prices benefiting many developing countries, but also led to mounting global financial imbalances and overleveraged financial institutions, businesses and households. In the context of a highly integrated global economy without adequate regulation and adequate global governance, the breakdown in one part of the system can have huge repercussions elsewhere, as we are witnessing today.

3. This crisis is systemic because its origins lie within the workings of financial markets themselves. Drawing from the painful lessons of the 1930s, some progress was made in the first quarter century from the mid-1940s to create conditions more favourable for sustained economic growth, employment and development. Many of these were undermined over the last three decades with economic policies favouring economic deregulation, following the more general weakening of the role of governments. Greater international economic integration or globalization during this period was actively promoted by institutions responsible for international economic governance, sometimes contrary to their own mandates. Financial deregulation and globalization thus replaced national financial arrangements, institutions and policies which sought to achieve sustained growth and employment, investment and technology promotion as well as inclusion and equity. These trends were hardly interrupted by growing evidence that the ostensible benefits of the new policies and institutions were contrary to the claims of their advocates. For example, there has long been strong evidence that capital account liberalization had led to capital flows from capital-poor to capital-rich countries, raised the financial sector profitability at the expense of the real economy and economic growth, and exacerbated financial volatility and instability. Thus, the financial system and the real economy became increasingly pro-cyclical, more unstable, less developmental and less inclusive. Instead of providing adequate checks and balances, many governmental and inter-governmental institutions accelerated this process due to policy and ‘regulatory capture’ by powerful vested interests and other influences on governance and reform.

4. Not surprisingly then, the **current crisis has affected all financial institutions and national economies, freezing the supply of credit with a devastating effect on the real economy**. Credit is an essential part of any economy where decisions take time to come to fruition and managing credit risk is a necessary part of a healthy economy. However, the greater the distance between those who first arrange a loan and those holding the risk, the greater the number and diversity of creditors to any individual borrower. Also, the greater the capacity to actively trade credit risk, the greater the danger that risks will go undetected or be under-priced. The interconnectedness of excessive risk-taking in financial markets with the problem of the global imbalances, vast dollar reserve accumulation (especially in parts of the developing world), volatile commodity prices, and declining trends in productive investment explain why this crisis is systemic and synchronized worldwide. For some years, the United Nations system, in various publications such as the *World Economic Situation and Prospects* and the *Trade and Development Report*, has repeatedly warned that mounting household, public sector and financial sector indebtedness in the United States and elsewhere, reflected in wide global financial imbalances, would not be sustainable over time.

5. **Policymakers initially responded in piecemeal fashion to the turmoil failing to see the systemic risk and the global ramifications** of which the symptoms were already felt in 2007. The initial approach included massive liquidity injections into the financial system and the bailout of some major financial institutions. As the crisis intensified in September 2008, crisis management became more

comprehensive and better coordinated. The measures have reshaped the previously deregulated financial landscape. Massive public funding (amounting to \$18 trillion or almost 30 per cent of world gross product, WGP)¹ has been made available to recapitalize banks, taking partial or full government ownership of ailing financial institutions and providing ample guarantees on bank deposits and other financial assets. Recognizing that monetary and financial measures will not be enough to stave off a recession, many countries, mostly developed but also some developing, have elaborated fiscal stimulus plans amounting to (by April 2009) about \$2.7 trillion (about 4 per cent of WGP) to be spent over 2009-2011, intended to halt the slide into deeper recession and to provide new jobs.

6. **Still, problems have not gone away.** The bold policy responses are not expected to gain sufficient traction to avoid the projected economic downturn in 2009, but could allow for some recovery in 2010. Yet, the risk of a more prolonged global recession remains, as problems in financial and corporate sectors in major market economies persist, protectionist tendencies are on the rise, business and consumer confidence are still down in most economies, and more concerted international policy action is needed.

7. **Developing countries are particularly adversely affected by the systemic flaws in the global financial system, but most are not in a position to equally respond with countercyclical measures.** At lower levels of development, they are less resilient and thus more vulnerable to fluctuations in world markets. With fewer

resources they are typically forced to pursue pro-cyclical monetary and fiscal policies, leading to greater variability in their economic performance, adversely affecting long-term growth. Such asymmetry is exacerbating global inequality by inducing capital outflows from developing countries to provide liquidity to the financial systems in Europe and the United States.

8. World leaders have different views on the severity of the crisis, its worldwide implications and how best to respond. Nevertheless, the G20 Summit held in London on 2 April 2009, pledged to do whatever is necessary to restore confidence, growth, and jobs; repair the financial system to restore lending; strengthen financial regulation to rebuild trust; fund and reform the international financial institutions to overcome the crisis and prevent future ones; promote global trade and investment and reject protectionism, to underpin prosperity; and ensure an inclusive, green, and sustainable recovery. The G20 announced \$1.1 trillion in international financial support, which includes a tripling of resources available to the IMF to \$750 billion (including a new SDR allocation of \$250 billion), additional lending by multilateral development banks of at least \$100 billion, and greater support for trade finance. The challenge ahead is to guarantee the adequacy and timeliness in transferring these resources to developing countries. At the same time, they pledged to reform the international financial institutions to strengthen their longer term relevance, effectiveness, and legitimacy, with the nature of the envisaged governance reforms yet to be specified. The G20 also reaffirmed all existing commitments to provide more aid and debt relief to the poorest countries,

including \$50 billion, mainly in the form of IMF loans only available if poor countries qualify.

9. **While these measures are significant, much more needs to be done;** not only to avoid this crisis from turning into a humanitarian disaster, but also to seize the opportunity to address the systemic flaws in the international financial architecture and mechanisms of global governance, as well as to steer the global economy in a direction that is more equitable and sustainable. In preparation for the Conference on the World Financial and Economic Crisis and its Impact on Development to be held from June 1 to June 3, 2009 in New York, this report identifies the main challenges ahead and suggests ways to address these.

II. Impact of the Crisis on Development

A. Impact of declining trade, finance and remittances

10. **Even though many developing countries were not directly exposed to the financial turmoil, they are being hurt through a variety of channels,** including collapsing trade and commodity prices, capital flow reversals, higher costs of borrowing, declining remittance incomes and strains on official development assistance. As the downturn is having uneven effects, countries are hurt in different degrees depending on their economic structure and vulnerability to shocks. The

impact of the crisis is further influenced by the capacity of governments to counteract its consequences, depending on whether they have counter-cyclical macroeconomic policy mechanisms in place, and the strength of their social protection systems, regulatory frameworks, governance structures and political stability. These factors also influence how different groups within their societies are affected. The poorest countries are more vulnerable to the vicissitudes of the global economy. They are heavily dependent on external finance (including aid) and trade, their foreign-exchange earnings and government revenue tend to rely on few commodities only and they tend to have weak social protection systems.

11. External financing for developing countries has dried up. Private capital inflows to developing countries have dropped sharply, accompanied by a surge in risk premiums for external financing. Net private capital inflows to developing economies declined by more than 50 per cent during 2008, dropping from the peak of more than \$1 trillion registered in 2007 to less than \$500 billion. Another significant decline of 50 per cent is expected for 2009. While declines in net private capital flows are expected for all emerging market economies and developing countries, the most substantial fall from previous levels will be for emerging Europe.

12. External financing costs for emerging economies and developing countries have surged. The risk premium on lending to these countries soared on average from 250 to about 800 basis points within the space of a few weeks in the third quarter of 2008. Unlike in recent years when the spread varied significantly across

regions and countries as an indication that investors were discriminating among country-specific risks, the recent surge has been uniform, confirming the existence of contagion and generalized investment aversion in global financial markets. Even though spreads narrowed to 500 basis points in April 2009, they remain very high relative to normal market conditions.

13. The shortage of affordable financing will have major repercussions for infrastructure spending, which is critical for longer-term growth. Investments in public and private infrastructure projects in sub-Saharan Africa and Latin America declined substantially after various crises and fiscal adjustments in the 1980s and 1990s, while infrastructure investment also dropped substantially after the financial crisis of the late 1990s in East Asia and had not recovered to pre-crisis levels by 2007.² Maintaining, constructing or rehabilitating much needed public infrastructure is critical for sustained development and growth, including by influencing the location of new private sector activities.

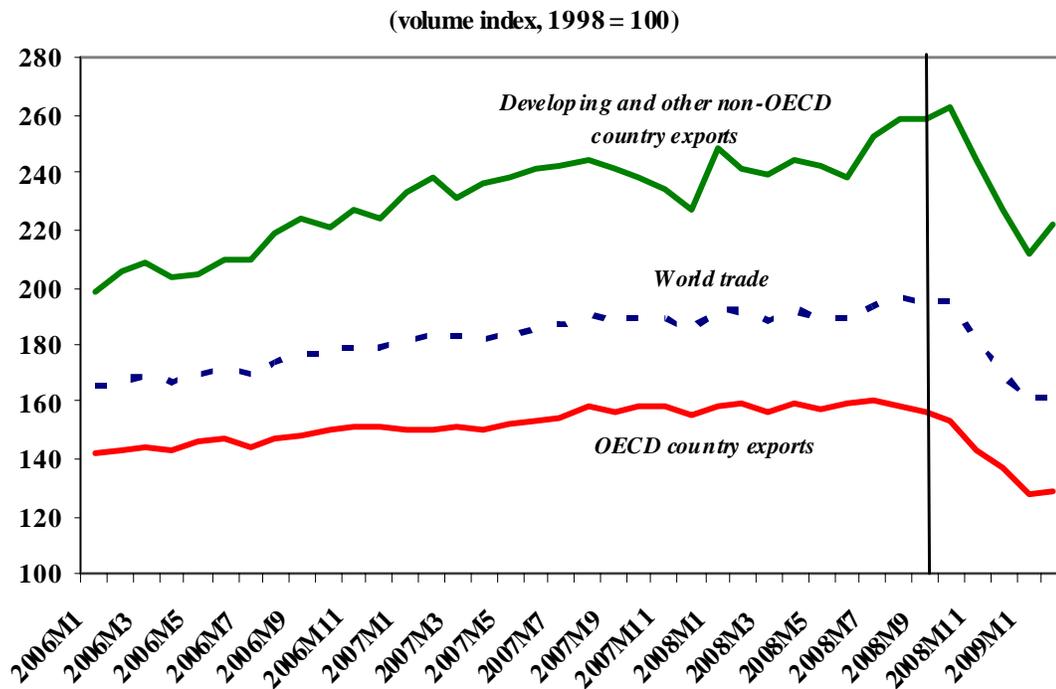
14. The rising cost of external borrowing will also affect debt sustainability in many countries. Well over \$1 trillion in foreign corporate debt and some \$3 trillion of external debt for emerging markets and other developing countries as a whole will mature in 2009 and will need to be rolled over at much higher cost than before. Debt sustainability for many developing countries will be affected further by falling growth rates and export earnings. As foreign debt is denominated in major currencies, the debt-servicing ability of countries is highly sensitive to exchange-rate

shifts. Deteriorating external conditions and the appreciation of the United States dollar since August 2008 have put downward pressure on the exchange rates of developing countries. Numerous middle- and low-income countries have seen strong currency devaluations over the past 6 to 9 months, sometimes as strong as between 20 and 50 per cent. These depreciations have made external debt service much more expensive in terms of local currency and are already affecting budget positions of governments and businesses. These factors are putting debt sustainability under severe stress in many developing countries. Also many low-income countries are at increased risk, including those that have received substantial debt relief under the heavily-indebted poor countries (HIPC) initiative. In 2008, only eight HIPCs had low risk of debt distress, according to the IMF and World Bank classification, while 31 countries suffered moderate to high risk, including 10 already in debt distress.³ Recent data also show that about one-third of low and middle-income countries in sub-Saharan Africa have external debt-to-GNP ratios of more than 50 per cent and debt service-to-GNP ratios of more than 2 per cent, which would classify these as vulnerable to external shocks and at risk of debt distress.

15. Collapsing world trade is hurting developing countries disproportionately hard. Trade flows worldwide sharply declined from the end of 2008 and have continued to decline in the first quarter of 2009 at an annual rate of more than 40 per cent in the three months up to February 2009 (Figure 1). The World Trade Organization (WTO) projects that the volume of world merchandise trade could plunge by 9 per cent for 2009 as a whole, while the United Nations *World Economic*

Situation and Prospects expects an even steeper fall of 11 per cent, the largest decline since the Great Depression of the 1930s.⁴ The impact of falling global demand is compounded by a drying up of trade finance. Even though there are no comprehensive data available to assess trends in export and import credits, many countries have reported problems in accessing various trade finance instruments, leading to a compression of trade activity. Developing countries will be hurt to different degrees by the decline in demand for their exports and by the squeeze of trade credits. The sharpest declines in trade have been observed among Asian economies, in some cases at annualized rates of 50 per cent or more. Both China and India have registered significant year-over-year declines in their exports for the first time in decades. Also imports to these countries are falling which, together with the drop in demand in industrialized countries, is affecting commodity exports by low-income countries. Also many African and other poor countries are being very hard hit as their cash economies are heavily dependent on few exports. Some have been successful in promoting niche export industries (including textiles, cut-flowers, vegetables, tourism). These sectors have become important sources of foreign exchange and government revenue in many low-income countries and are now at risk because of the global downturn.

Figure 1: Collapsing world trade, January 2006 – February 2009



Source: UN/DESA based on data from The Netherlands Central Planning Bureau.

16. **Sharp declines in commodity prices are compounding the adverse impact for many developing countries, especially economies heavily dependent on primary exports.** From 2002 to mid-2008, many countries gained from the upward, albeit volatile trend in the prices of oil and non-oil commodities. The intensification of the global financial crisis since mid-2008 has led to a sharp reversal in this trend. Oil prices have plummeted by more than 70 per cent from their peak levels of mid-2008. Prices of metals dropped by 50 per cent, while prices of other commodities, including basic grains, also declined significantly. No significant rebound is expected in the outlook, continuing to depress export earnings and government

revenues in many developing countries. Food and energy-importing countries may see their terms of trade improve, though in most cases this gain will be more than offset by the collapse in export demand, rising costs of borrowing and/or falling remittance flows. Among net exporters of commodities, low-income countries are being hit hardest by plunging world market prices, as primary exports comprise on average 70 per cent of their total exports and also a high share of government revenue comes from these exports.

17. Remittance flows to developing countries have also moderated significantly.

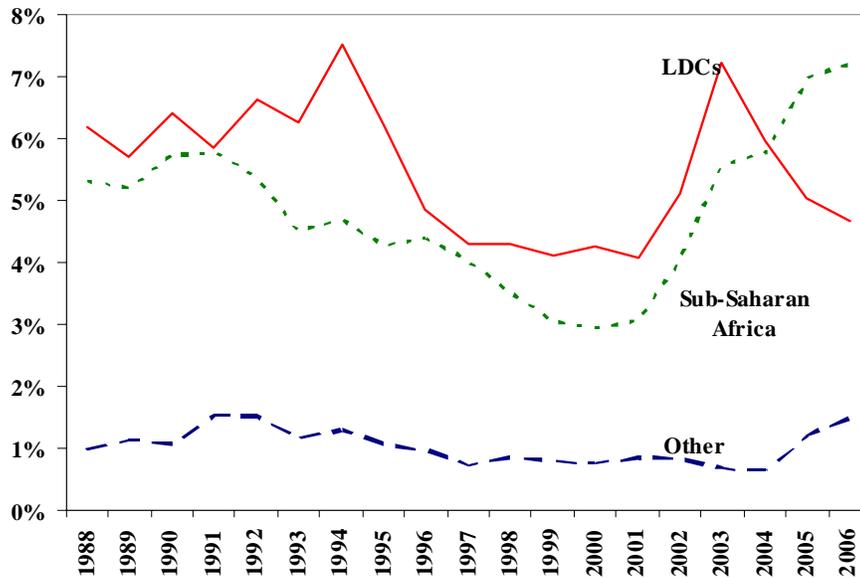
Totalling more than \$300 billion in 2008, almost three times the amount of annual official development assistance (ODA) flowing to developing countries, remittance flows have become an important source of income support to sustain consumption of families as well as of investment finance in many developing countries. **Remittance flows have been more resilient than other sources of foreign-exchange income during recent crises.** Remittances, even if declining somewhat, may provide a buffer and a form of social insurance to households in home countries, but are not a good substitute for the lack of adequate social protection. In earlier crises, remittances tended to be counter-cyclical, rising to compensate for economic downturns in home countries, but the parallel declines during the current global crisis will limit such remittances though weakened exchange rates of home country currencies may increase their purchasing power.

18. Remittance flows are also at risk because of rising immigration controls, forced expulsions and further reduced job security for migrant workers. With rising unemployment, many host countries have tightened immigration controls and introduced tougher requirements for migrant workers. Also, migrant workers tend to lose their jobs more quickly than other workers as a consequence of national policies or public pressures. While less labour market flexibility may slow recovery in host countries, the migrant workers' home countries will be deprived of resources cushioning the impact of the crisis. Middle-income countries would be affected most, being the major recipients in absolute terms (Figure 2). In relative terms, however, remittance flows are very important for a number of small, both middle- and low-income countries, in some cases accounting for more than 20 per cent of GDP. For sub-Saharan Africa, the total income from remittances was \$20 billion in 2008, more than what the region received in either foreign direct investment or country programmable aid. Remittance flows to Latin America and the Caribbean started to decrease from the third quarter of 2008 with the deterioration of the job market in the United States, source of 80 per cent of remittances to that region. Eastern Europe and Central Asia registered a significant slowdown in remittance flows since the Russian rouble started to depreciate. Remittance flows to South Asia are expected to experience a sharp slowdown in 2009 as a result of the expected deceleration of economic activity in the Middle East where many migrants from South Asia find employment.

19. Aid flows may come under pressure in view of declining gross national income (GNI) in the major donor countries. The global economic slowdown of the early 1990s produced large fiscal deficits in donor countries leading to deep cuts in official development assistance (ODA), which fell from 0.30 per cent of their GNI in 1992 to 0.22 per cent in 1997. Prior to the crisis, ODA flows to developing countries were falling measurably during 2006-2007. In 2008, aid flows from DAC donors increased again, however, reaching almost \$120 billion returning to a share of 0.3 per cent of donor countries' combined GNI. The crisis will put downward pressure on aid flows. Many donors target annual aid flows as a share of GNI, such that the value of aid will fall with national income even if the share stays fixed. Even though donor countries have repeatedly reiterated their ODA commitments, timely following through on these may still be disrupted if the present crisis is protracted.

20. An additional immediate concern is that official aid flows could become even more volatile. Already before the crisis, low-income countries, especially the least developed countries, have seen large fluctuations in annual aid flows of up to 2-3 per cent of GDP (Figure 2). For many low-income countries there are few alternatives to development assistance when faced with crisis-related declines in export and fiscal revenues; thus, uncertainty about the level of aid inflows complicates macroeconomic policies in response to the crisis.

**Figure 2: Volatile aid flows
(percentage of GDP)**



Source: OECD/DAC and UN/DESA data bases.

21. As a consequence of the worsening international environment, most developing countries will experience severe balance-of-payment problems. The World Bank estimates that 98 of 104 developing countries are expected to fall short of covering their external financing needs, with an estimated external financing gap which could rise to \$268 billion in 2009 alone, but may well be as high as \$700 billion under an envisaged scenario of further declines in private capital flows and increased capital flight. For low-income countries alone, the IMF estimates that the balance-of-payments shock could amount to \$140 billion in 2009. While some developing countries have accumulated vast amounts of international reserves, these are unequally distributed (most held by China) and most developing countries have insufficient reserves to cope with the magnitude of the external shock caused by this

crisis. Some 30 low-income countries are estimated to already face inadequate levels of reserves to cover a critical minimum of three months of imports. Emerging market economies, like India, Republic of Korea, Ukraine and the Russian Federation, have seen steep declines of 20 to 40 percent in their foreign reserves, contributing further to downward pressure on the value of their currencies. An increasing number of countries have had to turn to the IMF for large sums of emergency funding to limit further destabilization of their economies.

B. Implications for growth, employment and achievement of the MDGs

22. Per capita income growth for developing countries will stagnate in 2009 as a consequence of these rapidly deteriorating external conditions. According to the latest UN forecast, growth of income per capita in developing countries will decelerate significantly. Growth of GDP per capita is expected to drop to zero on average for developing countries, down from 4 per cent in 2008 and almost 6 per cent on average per year during 2004-2007. The expected setbacks are across the board, though strongest in Sub-Saharan Africa and Latin America and the Caribbean. These regions are also expected to suffer the severest actual declines in per capita income during 2009. At least 60 developing countries will suffer negative per capita income growth in 2009. Also the least developed countries (LDCs), including the small island development States amongst them, will be severely affected with

growth decelerating by five percentage points from the robust growth they had witnessed in recent years.

23. The biggest risk is of a prolonged labour market recession. The ILO estimates that, because of the crisis, at least 50 million more people worldwide could become unemployed and hundreds of millions may join the ranks of the working poor. The measured unemployment rate may not reflect the actual severity of the crisis. In most developing countries, in the absence of adequate social protection, the people who lose their jobs have to try to survive on low income informal activities. Higher unemployment and underemployment rates may persist for some time. Lessons from past financial crises indicate that it typically takes four to five years for unemployment rates to return to pre-crisis levels after economic recovery has set in. This is because massive rises in long-term unemployment and greater labour market “informalization” – exacerbated by return migrants and large-scale reverse migration from urban to rural areas – are very difficult to reverse.⁵ If these trends take root, the negative effects of the crisis will be long-lasting, yielding significant social hardship and depriving the economy of valuable resources. Most countries will need to achieve strong growth acceleration during 2011-2015 to offset the job destruction and displacement of workers caused by the crisis.

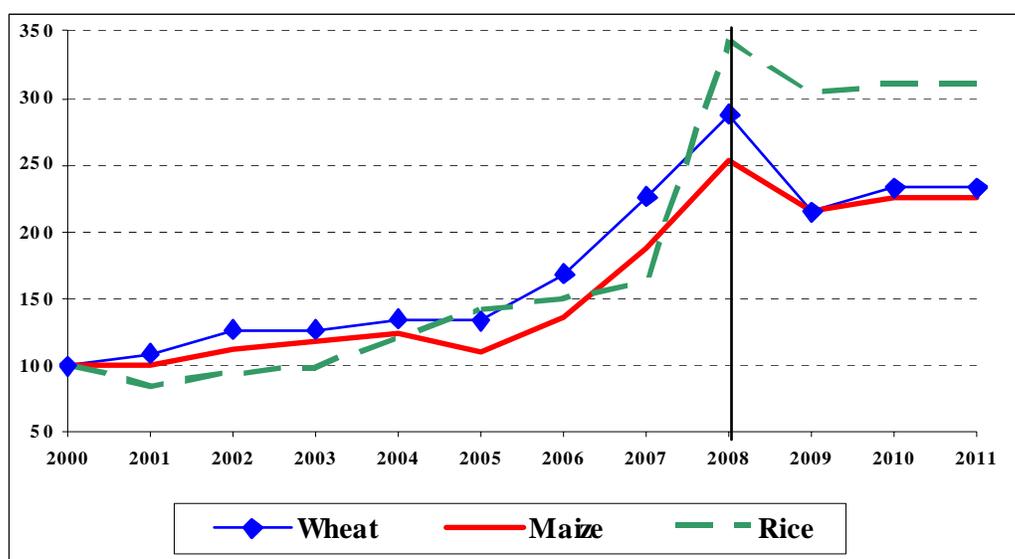
24. The global economic and financial crisis comes on top of the 2008 food crisis, which is not over. According to the FAO, higher food prices pushed an estimated 115 million people into hunger in 2007 and 2008, raising the total to close

to one billion people. Moreover, already before the current crisis, two billion people suffered from micronutrient deficiencies. Even though food prices have declined significantly from their peaks in early 2008, they remain above recent historic trends. Also, the recent exchange-rate depreciations have increased the domestic cost of imported food in many developing countries. In January 2009, the FAO food price index still was 27 percent above the 2005 level and 64 percent above the 2000 level. Structural factors putting upward pressure on prices, such as low food stocks, low agricultural productivity growth, climate change and demand for biofuels are still exercising influence. Most experts predict that food prices for the next ten years will be significantly higher than the low levels reached in the late 1990s (Figure 3).

Figure 3:

Food prices have declined, but remain well above recent pre-spike levels

(Index, 2000 = 100)



Source: UNCTAD and UN/DESA

25. The reduction in employment and income opportunities caused by the crisis will no doubt generate further setbacks in poverty reduction and in the fight against hunger. The precise impact of the crisis on global poverty is difficult to estimate. Problems have not yet bottomed out, countries are affected in different degrees and also their capacity to respond and provide social protection varies significantly. UN-DESA estimates that the drop in per capita income growth in 2009 would slow poverty reduction significantly. Between 105 and 145 million more people would remain poor or fall into poverty in comparison with a situation in which pre-crisis growth would have continued. Most of this setback would be felt in East and South Asia with between 95 and 132 million likely to be affected, of whom about half are in India. The crisis could keep 5 to 7 million more people in poverty in Africa and another 4 million Latin America and the Caribbean. These projections likely underestimate the true poverty impact of the crisis as the distributional consequences of the crisis not adequately accounted for. Workers at the lower end of the job ladder, including youth and female workers, are more likely to lose their jobs or to suffer income losses. Also, workers are already visibly shifting out of dynamic export-oriented sectors and either becoming unemployed or displaced to lower productivity activities (including moving back from urban to rural areas). In China alone, 20 million workers were displaced in this sense at the end of 2008. These trends are likely to jeopardize poverty reduction more structurally as it may take some time before economies readjust and workers can shift back to activities with higher remunerations.

26. Also a substantial slowdown in the progress towards the other MDGs should be expected. Even prior to the crisis and despite significant progress, many countries were not on track to meet most MDGs.⁶ Increasing income poverty and lower government revenue will also lead to lower public and private spending on social services, affecting all other MDGs. The precise magnitude of the setback is difficult to estimate at this point and will vary from country to country according to existing fiscal policy and institutional capacity to respond to the crisis. Based on the experiences of past crises in developing countries, such effects could sharply slow the reduction in infant mortality, for instance. According to World Bank estimates, a projected fall of GDP growth to half the pre-crisis level could lead to between 200,000 to 400,000 infant deaths per year more than would have been the case in the absence of the crisis.⁷ Research also indicates that in many contexts, economic crises tend to increase the probability of early death of girls by more than that for boys.⁸ Older persons also tend to be hurt disproportionately when social spending falls and health delivery deteriorates.

27. The crisis will substantially increase the costs of achieving the MDGs by 2015. The precise impact of the crisis on MDG achievement will vary from country to country and so will the cost of the additional efforts needed to bring countries (back) on track towards achievement of the targets. A study using a comprehensive model framework for a number of Latin American countries finds that a projected recession in 2009 and slow recovery towards pre-crisis growth levels by 2015 would

put some of the region's low-income countries (Bolivia, Honduras and Nicaragua) substantially further off track towards the goals for primary school completion, child and maternal mortality and access to drinking water and sanitation.⁹

C. Gender aspects of the crisis

28. **Previous economic and financial crises have shown that economic downturns put a disproportionate burden on women.** Women, especially in developing countries, have a higher probability than men of finding themselves in vulnerable employment situations or of being unemployed. The crisis has already hit major exporting industries dependent on North-American and European markets, including the labour-intensive sectors of developing countries such as clothing, footwear, processed foods, and electronic products. Since women make up the majority of the workforce in these sectors, their labour market position has worsened considerably in those countries where these sectors are significant. Women further are more likely to work in casual and temporary employment and earn lower wages than their male counterparts. With less job security women are more vulnerable during economic downturns.

29. **Women also tend to face greater income insecurity and increased burdens of family care.** Existing evidence has shown that the various economic and financial crises in Latin America, South Asia and Eastern Europe of the 1990s increased

women's burdens through having to spend more time on family care as a consequence of cuts in public spending on healthcare and education in response to those crises.¹⁰ Cuts in social spending also tend to disproportionately affect women's and girls' access to education and health services. Girls may be withdrawn from schools to help with household work during times of economic crisis, reinforcing gender gaps in education. Unless efforts are undertaken to avoid cuts in social spending, the present crisis will generate a similar impact.

D. Implications for sustainable development

30. Reduced investments in environmental protection, energy efficiency and renewable energy, water and land management and afforestation could slow efforts towards sustainable development, including those for addressing climate change. The global recession is likely to cause growth of greenhouse gas emissions to slow. At the same time, however, unless counteracted by public policies, investments in low-carbon infrastructure and technologies may also weaken along with the overall decline in investment worldwide, and because declining oil prices have reduced the incentive for substituting fossil fuels. While slowing the growth of greenhouse gas emissions will have negligible short-term effects on atmospheric concentrations, and hence on climate change, given the long atmospheric life of key greenhouse gases, the reduced investments in renewable energy and other low-

carbon technologies will slow cost reductions and learning economies associated with their more widespread adoption.

31. The crisis may cause further environmental impacts through changes in land use and accelerated deforestation. The crisis will also affect the livelihoods of the 1.6 billion people who depend directly or indirectly on forests resources, including 60 million indigenous people, among other factors, through declining global demand for wood and wood products. While in first instance this could offload some pressure on forests, deteriorating rural livelihoods may in fact increase it. Especially in developing countries, rural populations, including those who lost employment, will seek survival through foraging in forests for food, protein, energy and land. This also happened as a consequence of the 1997 Asian financial crisis, when many forest areas were cleared, burned and converted to other uses by rural poor in a struggle for survival.

32. Limited access to affordable long-term financing will constrain the ability of developing countries to increase investments in sustainable development, including in energy efficiency and renewable energy, sustainable forest management, in programs for adaptation to the unavoidable impacts of climate change and in sustainable management of water and land resources. Uncertainties already surround delivery on existing aid commitments during the current crisis. This no less the case regarding taking on new commitments to support much needed action towards climate change mitigation and adaptation in developing countries.

E. Social and political implications

33. A prolonged recession and insufficient attention to addressing social needs could cause problems of social unrest, rising criminality and weakening governance. Failing to adequately address expected setbacks in achieving poverty reduction targets and the other MDGs as well as reducing inequalities, while trillions of dollars of public money are being spent on financial sector bailouts, may trigger social and political unrest. In fact, social protests have been on the rise worldwide and several governments have had to resign following discontent over how the crisis was being managed. It may also cause rising criminality, among other factors, because of a disproportionate rise in youth unemployment. This also was the case during the Asia crisis of the 1990s, for instance, and generated strong increases in juvenile delinquency. Falling revenue and social support may also affect the capacity of governments to effectively manage the crisis. Government failure could well follow that of the market failure that triggered this crisis. Adequate systems of checks and balances guiding Governments in finding adequate solutions will need to be developed to assure transparency in public action and constructive dialogue with civil society.

34. The sense of global solidarity may also be impaired, if the needs of developing countries in this crisis are not adequately addressed. This in turn

could make it much more difficult to reach agreement on addressing other key global issues, such as responding to the challenges of climate.

III. Global responses to the crisis

35. The global economic crisis presents a test of the strength of multilateralism.

The crisis is global, requiring globally concerted solutions. Lack of adequate international coordination in practice not only endangers economic recovery and achievement of the MDGs, but may have wider security repercussions. History shows that economic unilateralism has often also led to political unilateralism and increased tensions among countries.

36. Adequate responses to the crisis require addressing the systemic causes as well as the development emergency it is generating. The current crisis, therefore, must be addressed in ways that:

- reflect the realities of the existing global imbalances;
- will reduce the asymmetries between developed and developing countries in undertaking necessary counter-cyclical policies and providing additional social protection;
- tackle the systemic flaws in the global financial system;

- the stimulus for economic recovery should avoid reproducing the past, unsustainable growth pattern, but instead prioritize job creation and poverty reduction and lay the foundation for truly sustainable global development.

Unless this is done, an acute development emergency will emerge, including further setbacks in the world's efforts to achieve the MDGs. Rising unemployment and poverty will confront countries with increased social needs, but decreases in government revenues will provide them with fewer resources to meet those needs. If countries are forced to cut back on social expenditures, this will have long-lasting effects on education and health of their populations, with lifelong effects on children and youth. If they are forced to cut back or delay essential investments in infrastructure, agricultural development and sustainable development, there will be long-term repercussions for poverty reduction, food security, and climate change mitigation and adaptation.

37. Globally concerted action is now urgently required in three key areas, balancing needs for immediate impact and longer-term development objectives:

- a) Ensuring adequately coordinated macroeconomic stimulus focused on sustainable development.
- b) Addressing systemic issues and reforming global economic governance mechanisms.
- c) Improving monitoring mechanisms to ensure greater accountability of global public policy action and improve the capacity to detect and respond to global development emergencies.

A. Ensuring adequately coordinated macroeconomic stimulus for sustainable global development

38. Fiscal stimulus packages that have been programmed are nearing the required size. Recognizing the limited effects of further monetary easing major economies, including some developing countries, have put massive fiscal stimulus packages. The stimulus plans so far amount to about \$2.7 trillion (about 4 per cent of WGP), but since this is to be spent over the next 2-3 years, the annual fiscal injections will be less than 2 per cent of WGP. While significant, this would fall short of the 2-3 per cent of WGP per year required to make up for the estimated decline in global aggregate demand. At the G20 Summit of April 2, 2009 leaders promised to enhance the total fiscal expansion to \$5 trillion by the end of 2010. This would bring efforts closer to what is required, though actual plans for increasing the fiscal stimulus to this level are yet to be spelled out.

39. While the global response so far has been unprecedented, even more unprecedented global actions are needed, including for further improving the health of financial sector balance sheets; more balanced and better coordinated macroeconomic stimulus; more development financing, especially for the poorest countries; more forceful action to avoid protectionism; and investments in a more sustainable and equitable future.

Cleaning financial sector balance sheets

40. **Financial sector rescue operations should more effectively restore the flow of credit to productive sectors.** Without restoring proper functioning of the global financial system, the fiscal stimulus likely will be ineffective. Thus, further decisive and cooperative action necessary to restore the financial health of banks and stimulate resumption of domestic lending and of international capital flows. This will require greater efforts, especially in the developed countries, ensuring adequate recapitalization of banks. Speedy progress also needs to be made towards pervasive macro-prudential regulatory reforms and improved oversight of the entire financial sector in order to restore confidence in maintaining future solvency of the system. Maintaining expansionary monetary policies will be required in most cases to put continued downward pressure on borrowing costs and ensure adequate liquidity will lead to normalization of lending and put a halt to capital reversals in emerging markets as a consequence of the de-leveraging in financial sectors in developed countries.

Adequate coordination of the macroeconomic stimulus and its financing

41. **Fiscal stimulus measures should be better coordinated.** There has been no actual coordination of the fiscal measures being undertaken by national governments. Without adequate coordination, the stimulus measures may fall short of what is needed. First, lack of coordination of size and timing will limit the

multiplier effects of the stimuli, thus reducing the impact on global economic growth and employment. Second, more than 80 percent of the stimulus is being undertaken by the major developed countries. Facing a stronger downturn and with greater response capacity, most countercyclical efforts should indeed originate in those countries, but this does not ensure adequate rebalancing of the global economy. Since much of the stimulus will come from the major deficit countries, without corrective action this would perpetuate the problem of the global imbalances. Further, most developing countries lack the resources to undertake necessary countercyclical measures for their economies. Improved international macroeconomic coordination should overcome these deficiencies.

42. The macroeconomic stimulus should be coordinated within a medium-term financing framework. Such a multi-annual framework for international coordination is required to minimize undesirable negative impacts of the way in which the fiscal stimulus is financed. It should address the risks of destabilizing exchange-rate movements, global inflation, unsustainable build-up of public debt, and renewed widening of global financial imbalances.¹¹ It should also help generate broad-based and continued support for globally concerted solutions. Some countries hesitate to take further action over concerns of possible negative repercussions in the medium run from widening of fiscal deficits and larger public debts. The severity of the financial crisis calls for policy actions that are commensurate with the scale of the problem, and should thus go well beyond any normal range of budgetary considerations. Looking ahead, the overall costs of widening fiscal deficit due to

stimulus packages, if they can effectively reduce the depth and duration of the economic downturn and save employment, could well be smaller than the total economic and social costs of a depression. Both the financial rescue operations and stimulus packages will demand potentially large contributions from current and future tax payers and may involve significant wealth redistributions. The medium-term framework should thus consider the distributional consequences of financing of the fiscal stimulus across generations, countries, and population groups.

Additional finance to address the development emergency

43. More development financing is needed to allow for adequate responses by developing countries, especially for the most vulnerable countries. The \$1.1 trillion package announced by the G20 and the reiterated commitment of donors to increase ODA to internationally agreed targets are significant, but more is needed to address the development emergency created by the global crisis:

- *Greater and easier access to unconditional emergency financing for low-income countries needs to be assured.* The additional SDR allocation to increase the IMF's lending capacity will boost reserves of IMF members in accordance with existing quota distribution rather than based on financing needs. A mechanism of ex-post reallocation should be used to enhance the lending capacity available for developing countries, especially the poorest. This should complement the decision to double access limits on concessional lending by the IMF to low-income countries, in order to provide easily

accessible, low-cost emergency financing for developing countries without onerous conditionalities undermining ‘policy space’. In addition, regional efforts to augment international liquidity provisioning should be supported (such as through the Latin American Reserve Fund, the Chiang Mai and other regional initiatives).

- *Urgent reform of the IMF financing framework for developing countries is needed* to be able to respond more flexibly to specific country needs and to support countercyclical responses. While decisions favouring greater flexibility in IMF lending have already been taken, in practice, restrictive, deflationary and pro-cyclical policy conditions continue to be attached to IMF support to most countries.
- *More long-term development lending and ODA are needed.* An estimated additional \$500 billion in enhanced long-term official financing will be needed to cover fiscal revenue gaps and provide developing countries the required space to protect social spending and finance fiscal stimulus packages during 2009 and 2010.¹² Some \$250 billion could be mobilized for long-term financing by the multilateral development banks. The World Bank Group is already committed to increase IBRD lending capacity to at least \$100 billion; with \$60 billion replenishment of their capital and by maintaining sound leverage ratios, regional development banks could expand development lending by about \$150 billion. To meet the needs of the most vulnerable low-income countries, especially those in Africa, ODA would need to be raised by \$250 billion over 2009-2010. About \$50 billion could be mobilized by front-

loading resources in the already replenished International Development Assistance (IDA) window of the World Bank and those in the concessional windows of the regional development banks.¹³ The remainder (\$200 billion) should come through accelerating delivery on ODA commitments.¹⁴

- *Development financing will need to become more reliable.* To reduce the volatility in official financing and allow developing countries to sustain long-term investments, the predictability of such financing should be enhanced through multi-annual agreements between donors and recipient countries in line with the Paris Declaration and the 2008 Accra agreement on improving aid effectiveness.

Avoid protectionist responses and unfair trading practices

44. **The crisis response must avoid protectionism.** Since G-20 leaders signed a pledge in November 2008 to avoid protectionist measures, 17 countries of the G20 have implemented 47 measures that restrict trade at the expense of other countries. Commitments to refrain from raising new barriers on trade, including through subsidies to banks and firms that violate fair trading practices, should be firmly adhered through and measures already taken should be rectified.

45. **While early conclusion of a truly developmental Doha Round of trade negotiations would be desirable, this has probably been made more difficult by the**

crisis. Enforcement of a strong rules-based multilateral trading system should be more effective in stemming the growing protectionism of recent months associated with policy responses to the crisis. The international community must also enhance resources for Aid for Trade to developing countries to compensate for the loss of trade tax revenues and existing production and trade capacities due to trade liberalization and to support the development of such new capacities and capabilities. This is essential to help them to overcome structural constraints and enhance their trade competitiveness to recover from the crisis. The international community should also carefully review how the WTO's Financial Services Agreement (FSA) under the General Agreement on Trade in Services (GATS) would not contribute to global financial instability. Developed countries should immediately concede 100 per cent market access to all LDC exports, including cotton, and eliminate all subsidies for primary commodities exported by the LDCs besides significantly enhancing trade finance and facilitation for all developing country exports.

46. **The imposition of further restrictions on migrant workers should be discouraged as a new form of protectionism.** The world community should ensure the crisis does not lead to a backlash against migrants in receiving countries, and should avoid harming recovery and development in home countries by depressing migrants' employment and remittances.

Use stimulus to steer towards fairer and sustainable globalization

47. **The crisis response should be aligned with long-term investments in human development and a more sustainable global economy.** The fiscal stimulus should provides immediate traction in order to restore consumer and business confidence and avoid major social costs through adequate job creation, but at the same time it should be used for investments in human development and the greening of economic growth. These objectives can well be made compatible by linking four dimensions for a *Global New Deal*: a global green new deal, a global jobs pact, a social protection floor, and a new global social contract.¹⁵

48. **A *Global Green New Deal* should ensure that much of the stimulus is used to initiate investments and technology sharing for greatly expanding decent work opportunities and sustainable development, including climate change mitigation and adaptation.** This would entail, among other things, investments in climate-proof infrastructure, technology development, production of renewable energy and greater energy efficiency in the fight against climate change. Many such investments would yield significant short-run net employment benefits while also serving to reduce energy consumption and greenhouse gas emissions. Similarly, investments in afforestation and reforestation, sustainable agriculture, and biodiversity protection will be critical not only for climate change mitigation and adaptation, but also should serve to contribute to poverty reduction and food security. For a truly *global* green new deal, greater international policy coordination will be needed, especially in the form of support in financing of the investments in sustainable development and facilitating the technology transfers that are needed.

49. **The stimulus should be aligned with the ‘Decent Work’ agenda by establishing a *global jobs pact*.** This pact would aim to make the concerted global response for recovery job-intensive and to shape a pattern for sustainable growth based on stronger and better functioning labour markets and social protection systems. The pact would also include ensuring adequate access to credits for small and medium-sized enterprises and for farmers, especially in developing countries.

50. **A social protection floor should be established, ensuring access to basic social services and empowerment and protection of the poor and other vulnerable population groups.** Unlike many developed countries, developing countries lack adequate social safety nets that could safeguard against long-term adverse effects on human development, while at the same time act as automatic economic stabilizers during economic downturns. In coordination with actions undertaken for the global jobs pact, the international community should support developing countries in creating a social protection floor, focusing on two pillars: (a) ensuring access to basic social services and (b) creating universal access to social transfers to provide minimum income security (including through cash transfers and enhancing social security coverage).

51. **A new *global social contract* is needed to rally broad political support for a renewed multilateralism and reorientation of national policies that supports a fairer and sustainable process of globalization.** No social or economic order is

secure if it fails to benefit the majority of those who live under it. The global crisis has shown that deregulation and the erosion of checks and balances had gone too far, requiring reconsideration of many aspects of existing global arrangements. This demands a “social contract”: an implicit understanding among members of a community to cooperate for mutual benefit, along with formal rules and institutional mechanisms to help build trust, balance competing interests, manage disputes and distribute fairly. Responsibility for the choice and mix of policies to achieve prosperity, stability and justice, remains, of course, with national institutions and constituencies, but in an increasingly interdependent world and on a fragile planet, building a more secure, equitable and sustainable global economy is a truly international endeavour.

52. The United Nations system should provide leadership, in close collaboration with the Bretton Woods institutions, in all of these areas and ensure the policy coherence between these.¹⁶ Such leadership emanates from its role as guardian of the global development agenda, its central role in the climate negotiations and given its universal membership and broad mandate to promote peace and security, development and human rights.

B. Systemic reform of the international financial architecture and global economic governance

53. The systemic causes of the present crisis are ultimately owing to fundamental weaknesses in global economic governance and overcoming these defects is the only genuine solution. These weaknesses underpin haphazard financial deregulation, the explosion of global imbalances and vulnerabilities, and irresponsible behaviour promoted by the international reserve system. Much more fundamental changes are needed to reform the international financial system in order to provide better safeguards that can prevent it happening again, and to create a framework for global economic governance in line with 21st century realities.

54. The steps taken by the G20 leaders in April are helpful, but much more needs to be done. Marginal changes in the regulatory system and more money for the IMF are not sufficient to put the world on track for the creation of a stable global monetary system. It is paramount that urgent progress is being made towards the reform of the international financial architecture and global economic governance structure. The United Nations Monetary and Financial Conference at Bretton Woods in July 1944 created the Bretton Woods architecture for the post-war period, but subsequent developments, especially since the 1970s, have been on an *ad hoc* basis. This crisis, and the development emergency it has exposed, underscore the urgent need to address the systemic failure to sustain ‘growth, jobs, security’ – the G20 slogan at London – and to create more conducive conditions for sustainable development more generally.

55. The need to enhance the coherence and consistency of the international monetary, financial and trading systems, to ensure they support the

internationally agreed development goals, including social and environmental sustainability, is an overarching theme of the 2002 UN Financing for Development (FfD) conference and the resulting Monterrey Consensus as well as the 2008 Doha Declaration. The prevailing international consensus is that the overarching goal of global cooperation is “to eradicate poverty, achieve sustained economic growth and promote sustainable development¹⁷ in order to “advance to a fully inclusive and equitable global economic system.¹⁸ This formulation¹⁹ provides the criteria against which the consequences of global economic governance should be measured. This overall goal implies a set of supporting objectives. The most critical of these are mentioned in the IMF Articles of Agreement and reflects a shared understanding, already present at Bretton Woods in 1944, of the desirable features of the international economy. The first was facilitation of “expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.²⁰ The second was “to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.” The third was to create conditions favourable to post-war reconstruction and sustained long-term economic development.

Re-regulating financial markets

56. A macro-prudential regulatory system needs to be created based on countercyclical capital provisioning and inclusive, effective and accountable

institutions for the better supervision of all the different financial market segments concentrating systemic risk. Existing regulatory approaches have been traditionally confined to improved disclosure, prudential controls and risk management. These are now generally seen as insufficient in mitigating the inherent pro-cyclicality of the financial system, which tends to foster asset price bubbles. The G20 leaders have recognized the need for regulatory reform, but in order to overcome the deficiencies of the present mechanisms the priority should be given to the following objectives:

- *Eliminating pro-cyclicality:* The pro-cyclical elements of the Basle II framework need to be eliminated. More counter-cyclical tools should be deployed in order to restrain credit expansion during upswings and provide greater cushion against losses when disruptions occur.
- *Regulating cross-border flows:* Such instruments should apply to all financial institutions and transactions, including cross-border capital flows. It will be necessary to review the boundaries of regulation with the aim of reducing gaps and inconsistencies in regulatory regimes between countries and addressing potential systemic vulnerabilities caused by the lack of regulation of certain parts of the financial system. The international community needs to move decisively towards an internationally coordinated macro-prudential and regulatory architecture, with non-conflicting standards and procedures that involve greater clarity of respective responsibilities and objectives as well as closer and more effective cross-border synchronization and collaboration among supervisors.

- *Safeguarding against excessive risk taking*: Financial regulators should be mandated to ascertain the safety of financial instruments, especially of derivatives. There also needs to be tighter regulation of incentives and remuneration systems in financial sectors and alter existing incentives which encourage excess risk taking.
- *More effective surveillance*: The 1999 international standards and codes initiative created after the Asian crisis has failed to provide adequate early warning signals for regulatory short-falls. Attention should be devoted to both defining standards as well as designing effective monitoring subject to independent peer-reviewing processes. Standard setting, implementation, and monitoring are inter-related and should be made sensitive to country-specific conditions.
- *Reform of credit-rating agencies*: Governance of credit rating agencies and their analytical tools need to be rigorously reviewed leading to more appropriate risk assessment processes. The present crisis has exposed the inherent weaknesses in their functioning. The G20 has taken the first steps by proposing a regulatory oversight regime consistent with the IOSCO code of Conduct by the end of 2009 to examine their role in prudential regulation. Ratings should reflect the differences in products and countries in a transparent manner capturing the actual risk of the product or country in question.
- *Capital account liberalization should be revisited*: The crisis has strengthened the case for the prudential use of capital controls as a regulatory tool to pursue counter-cyclical macroeconomic policy, especially in developing countries. As

the financial crises in emerging economies in the 1990s, the present crisis has once more exposed the macroeconomic risks associated with full liberalization of the capital account in a world of inherently volatile international finance.

- *Aligning reform of financial regulation with the multilateral trading system:* Much of the liberalization of financial services of past decades has been advanced through multilateral and bilateral trade agreements. As regulatory frameworks of the financial system are changed and the issue of financial tax-havens is being addressed, also the WTO/GATS trade rules regarding financial services trade must be revisited as well.

57. Strengthened international tax cooperation should be a critical element in a more effective global system of financial regulation. Such cooperation should help reduce tax evasion which is often also associated with money laundering, corruption, financing of terrorism, and drug trafficking. Enormous potential resources have leaked out from the tax systems of both developed and developing countries. As tax evasion is pervasive, improved international cooperation to combat it will help boost the fiscal capacities of governments worldwide. As stated in the Monterrey Consensus and the Doha Declaration on Financing for Development,²¹ combating tax evasion through improved tax collection would greatly augment financing for development. Important information sharing steps have already been taken by the United Nations Committee of Experts on International Cooperation in Tax Matters. The Organization for Economic Cooperation and Development (OECD) has also done useful work, though its efforts are limited to OECD members, are on a request basis, and only involve the financial

centres that have entered into bilateral agreements on the exchange of information on tax matters. Recognizing the critical role of fiscal space in constraining governmental responses to the crisis and the significance of recent tax evasion scandals, the international community should urgently establish a United Nations Intergovernmental Committee on International Cooperation in Tax Matters -- collaborating with the IMF and the OECD and effectively using the existing expert committee -- to design and help implement measures to reduce international tax evasion and enhance tax revenues, especially of developing countries.

58. An international mechanism for sovereign debt restructuring and relief needs to be established. As part of the response to the present crisis, there is an immediate need for a more flexible approach to debt sustainability while providing additional funding. The balance of payments of many countries is rapidly deteriorating because of the global crisis, while Governments will need to undertake massive countercyclical responses. Where needed, standstill agreements and temporary moratoriums on existing debt-payment obligations should be part of the package to give countries some additional financial breathing space. This would also reduce requirements for new funding. Beyond this immediate need for action, an orderly sovereign debt workout mechanism and an improved framework for handling cross-border bankruptcies are needed. The United Nations should set up a high-level working group to prepare a workable proposal for an effective new framework and mechanisms for handling cross-border disputes for decision-making by 2010.

Reforming the global reserve system

59. **A new global reserve system which no longer relies on a single national currency as the major reserve currency should be considered.** As a result of global instability and deficiencies in the international financial institutions to address this instability, as well as the lack of adequate collective insurance mechanism against balance-of-payments crises, many developing countries have accumulated vast amount of reserves for self-protection. This has led to “reverse aid” flows from developing to developed countries. Overcoming the major inadequacies of the current system requires a set of even broader reform measures. A new system which allows for better pooling of reserves at the regional and international levels and which is not based on a single or even multiple national currencies, but which permits the emission of international liquidity (SDRs or an equivalent thereof) so as to create a more stable global financial system needs to be developed. For SDRs to play this role as well, several further reforms and policy measures are needed:²²

- First, given that IMF quota allocations, which are currently the basis for SDR issues, are not in line with today’s world economic realities, SDRs would need to be issued asymmetrically, favouring those countries with the greatest need for reserves.
- Second, the issuance of new SDRs should be combined with a new international financing mechanism during crises, which would allow the IMF to lend unused SDRs to countries in need.

- Third, such a new SDR-based mechanism could be complemented by a stronger role for regional reserve and financial cooperation arrangements among developing countries such as the Chiang Mai initiative in East Asia and FLAR in Latin America.

Global governance reform

60. **A fundamental reform of the governance structure of the Bretton Woods institutions is needed.** At the Doha Conference on Financing for Development, member states agreed in December 2008 that such a reform must be comprehensive to more adequately reflect changing economic weights in the world economy, be more responsive to current and future challenges, and strengthen the legitimacy and effectiveness of these institutions. Existing inequities in the voting weights in these institutions prevent them from adequately incorporating the needs of the users of their funds in their operations and are in conflict with their public character and role as facilitators of international cooperation. Prospective increases in the resources of these institutions should be preceded by accelerated reform of their governance.

61. **Improved international coordination of macroeconomic policies will require reform and strengthening of the functions of the Bretton Woods institutions.** Global responses so far have been concerted by the G7, G8, G20 or other ad-hoc fora. All these platforms lack the participation or representation of important parts of the international community, especially from developing countries.

Institutionalized macroeconomic policy coordination should be embedded in a more representative multilateral framework. The IMF could provide such a platform provided adequate reform of its governance structure and revision of its functions. Following such a reform, its policy making body, the International Monetary and Financial Committee (IMFC) could be tasked with mediating agreements of international policy coordination, including measures to guard against policies that can lead to unsustainable imbalances at the global level. This would require further strengthening of the effectiveness of IMF surveillance, putting greater emphasis on macro-financial linkages and fully extending its vulnerability exercise for all countries, emerging, developing and advanced economies alike.

62. Broader global economic governance reforms must be considered as well.

The crisis and the search for adequate responses have made clear that there is an urgent need to ensure coherence in the global governance of the international financial architecture, the multilateral trading system, the framework for addressing climate change, the development agenda, protection of human rights, and peace and security. Such coordination could take place through a new Global Economic Council that is part of the United Nations system, as proposed by some member states or through a more pervasive reform of the UN's Economic and Social Council. Whatever the precise mechanism, it is essential that a body be created which can provide coordination and oversight of concerted responses in addressing the broader range of global challenges. With adequate, inclusive representation, such a new or reformed body could provide the required political legitimacy for effective global

responses to emerging crises and ensuring coherence among all major areas of global governance, along the lines of the *Global New Deal* outlined above.

C. Global Monitoring and Accountability

63. Mechanisms for assessing global economic and social vulnerability and providing accountability for concerted policy actions need to be improved and better integrated. The world economy is in a state of great uncertainty and many did not see this crisis coming. Existing monitoring mechanisms do not fully capture systemic risks in financial sectors and only partially chart out transmission channels to the real economy. Monitoring frameworks for identifying individual country vulnerabilities, environmental impacts and impacts on living conditions of specific population groups are fragmented. This also makes assessing the effectiveness of policies challenging. Tax payers will demand insight in the effectiveness and distributional consequences of the vast amounts of resources of public money that are allocated to deal with the crisis. Better monitoring should help enhance accountability for national and globally concerted actions undertaken by Governments. This should also help maintain broad social and political support for those actions. In contrast, if the measures do not seem to make visible impact within a reasonable time horizon while tax payers are insufficiently informed of how

resources are being deployed, there is a danger of increased social unrest and threats to global security.

64. **The United Nations should develop such a global vulnerability monitor** in close collaboration with other international organizations as well as with Member States, making optimal use of existing information systems.

IV. Summary of main recommendations

- **In the face of the world economic and financial crisis, the multilateral system must deploy all its resources and capacities for rapid, coordinated and effective responses. Unprecedented global responses have already been undertaken, but more global action is urgently needed.**
- **Additional fiscal stimulus is needed, which should be better coordinated internationally in a medium-term financing framework, giving due consideration to global imbalances, destabilizing exchange-rate movements and enabling countercyclical responses by developing countries.**
- **Financial sector rescue operations should prioritize restoring affordable credit flows to productive sectors through more adequate bank capitalization and regulatory reforms.**
- **A much larger share of the new international liquidity for emergency financing should be made available to developing countries, responding**

flexibly to country needs and supporting countercyclical responses. This should be done, inter alia, through ex-post reallocation of new SDR issuance and greater reserve pooling through regional mechanisms of monetary and financial cooperation.

- **Development lending and official development assistance need to be scaled up substantially, ensuring reliable financing for developing countries to respond swiftly to the crisis while making long-term investments in human development and a sustainable global economy. This will require new capital replenishments for the multilateral development banks and accelerated delivery on existing aid commitments.**
- **Protectionist tendencies should be resisted, while efforts should be stepped up to ensure the Doha Round of multilateral trade negotiations has a truly developmental outcome, additional aid for trade flows are significantly stepped up, not least for trade financing, and full market access be provided immediately to exports from the least developed countries to help their recovery. .**
- **Discrimination against migrant workers should be discouraged to enable remittances to help recovery in their home countries.**
- **Comprehensive regulatory reforms of the international financial system should be undertaken, leading to a macro-prudential framework covering all financial market segments and credit-rating agencies, limiting existing pro-cyclical measures and perverse incentives encouraging excessive risk taking, and developing improved monitoring mechanisms.**

- **Strengthened international tax cooperation and the establishment of an international mechanism for sovereign debt restructuring and relief.**
- **A new global reserve system no longer based on one or several national or regional currencies, but perhaps on a new SDR-based mechanism as well as regional mechanisms for international reserve pooling should be carefully considered for implementation.**
- **The Bretton Woods institutions need to be reformed in a fundamental way to increase their legitimacy as well as their capacity to prevent and manage future crises.**
- **The international financial architecture should not only ensure greater financial stability but should also create the conditions for sustainable development, more decent employment, more effective investment and technology policies as well as financial inclusion at both national as well as international levels.**
- **Broader global economic governance reforms are also needed. The United Nations should more effectively ensure coherence among all major areas of global governance, the multilateral trading system, the framework for addressing climate change, the development agenda, protection of human rights, peace and security.**

Endnotes

¹ The estimate includes financial bailout packages (including government guarantees on bad debts) and liquidity injections into financial systems between 1 September 2008 and 31 March 2009. See UN/DESA *Monthly Briefing on the World Economic Situation and Prospects* No. 7 (2 April 2009) (f" http://www.un.org/esa/policy/publications/wespmbn/sgnose_7.pdf).

² See United Nations (2006), *World Economic and Social Survey 2006: Diverging Growth and Development*, (Sales No. E.06.II.C.1) and World Bank (2009) 'Swimming against the tide: how developing countries are coping with the global crisis', Background paper prepared for the G20 Finance Ministers and Central Bank Governors Meeting, Horsham, United Kingdom, March 13-14, 2009.

³ See United Nations (2008), *Delivering on the Global Partnership for Achieving the Millennium Development Goals*, MDG Gap Task Force Report 2008 (f" http://www.un.org/esa/policy/mdggap/mdg8report_engw.pdf)

⁴ See United Nations (2009), *World Economic Situation and Prospects as per mid-2009* (forthcoming).

⁵ See International Labour Organization (2009). 'The Financial and Economic Crisis: A Decent Work Response', Paper submitted to ILO's Governing Body Committee on Employment and Social Policy (document GB.304/ESP/2), Geneva: ILO.

⁶ United Nations (2008) *The Millennium Development Goals Report 2008*, New York: UN-DESA.

⁷ The projected slowdown is consistent with the UN baseline forecast average GDP growth rate for 2009 and 2010, assuming recovery in 2010. The estimated impact on infant mortality is based on World Bank (2009) 'Swimming against the tide', *ibid*.

⁸ S. Baird, J. Friedman, and N. Schady (2007) "Aggregate Income Shocks and Infant Mortality in the Developing World." World Bank Policy Research Working Paper No. 4346.

⁹ Marco V. Sánchez and Rob Vos (2009), 'Impact of the global crisis on achievement of the MDGs in Latin America', UN/DESA technical paper (in preparation). The analysis uses an economy-wide framework (MAMS) for assessing the determinants and costs of MDG achievement, as well as the macroeconomic trade-offs that may be associated with scaling up public spending for the MDGs.

¹⁰ United Nations, Division for the Advancement of Women (1999). *World Survey on the Role of Women in Development: Globalization, Gender and Work* (United Nations publication, Sales No. E.99.IV.8), pp. 12-13, New York, p. 46.

¹¹ For instance, a major part of the fiscal impulse generated in the United States will significantly increase US public debt or, alternatively, lead to large issuance of dollars. Either way, this could precipitate a strong depreciation of the dollar. Given the dollar's role as the world's major reserve currency, this may have highly disruptive effects on financial markets.

¹² Spread over two years, this would amount to about 3 per cent *per year* of the combined GDP of developing countries (excluding China and the major oil-exporting countries) to the worldwide stimulus. According to the UN forecasts, average developing-country growth (excluding China and major oil-exporters) is expected to drop by 6 percentage points or more from the robust growth of the past few years. Assuming a multiplier effect of about 1.7 from well-designed international fiscal stimulus packages, a stimulus of this magnitude would be required for developing countries.

¹³ The World Bank's concessional window (IDA) was already replenished by \$30 billion in 2008 to cover three years of credits and grants. This could be frontloaded to make these resources available during 2009 and 2010. Equally concessional lending windows of regional development banks (ADB, AfDB, IDB and others) could be frontloaded to provide the additional \$20 billion.

¹⁴ Meeting the Gleneagles aid commitments should bring total ODA to \$160 billion per year and could provide an extra \$80 billion over 2009-2010. Further, accelerated delivery towards the agreed UN target of 0.7 per cent of their annual GNI could provide the remaining \$120 billion needed over 2009-2010. This would bring ODA to about \$220 billion per year or 0.55 per cent of GNI of OECD/DAC members by 2010.

¹⁵ Further directions for such a coordinated policy response are laid out in the UN System Chief Executives Board for Coordination (CEB) communiqué of April 5, 2009 and the related CEB Issue Paper "The global financial crisis and its impact on the work of the UN system" (April 2009; CEB/2009/HLCP-XVII/CRP.1).

¹⁶ The UN System Chief Executives Board for Coordination (CEB) has decided to pursue this at its meeting of April 4-5, 2009.

¹⁷ The Monterrey Consensus of the International Conference on Financing for Development, March 2002, paragraph 1.

¹⁸ *Ibid.*

¹⁹ The formulation is specifically taken from the Monterrey Consensus of 2002, but was first enunciated in the Millennium Declaration of 2000 and in similar fashion in many other international agreements.

²⁰ IMF Articles of Agreement, Article I (iii).

²¹ United Nations, Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002 (A/CONF.198/11, chapter 1, resolution 1, annex) and Doha Declaration on Financing on Development: outcome document of the Follow-up International Conference on Financing for Development to Review the Implementation of the Monterrey Consensus (A/CONF.212/L.1/Rev. 1*)

²² See for further details Chapter VI of United Nations (2005), *World Economic and Social Survey 2005: Financing for Development* (Sales No. E.05.II.C.1).

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