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## **The European Union preliminary views**

**on**

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

New York, 11 -12 March 2008

*In preparation for the Doha Review Conference – external debt and systemic issues, the European Union is organizing some internal working meetings, which are yet to take place. In addition, some other international events in the near future may bring additional contribution to the Monterrey Consensus Review process. The European Union will therefore produce a more substantial contribution on external debt and systemic issues later in the spring.*

In chapter VI of the Monterrey Consensus, heads of state and government recognized the “urgent need to enhance coherence and consistency of international monetary, financial and trading systems in support of development”. They pointed at the need of continued improvement in global economic governance, broadening and strengthening the participation of developing countries and countries with economies in transition in the economic and financial decision-making and norm setting as well as helping them in developing their capacity to participate effectively in the relevant fora and processes.

At the same time it is emphasized that good governance at the national level, sound domestic economic policy, including a stable macroeconomic environment, supportive investment climate and functional domestic financial sectors, which make a vital contribution to national development efforts, are important components of the international financial architecture that is supportive of development.

The global context has changed a lot since Monterrey. The economic and financial system has evolved; emerging countries have gained in importance in international fora. New issues have also emerged on environmental sustainability and social conditions.

Economic and financial globalisation and the emergence of new players – both private and state actors - on the international economic and trading scene lead to new challenges which have to be addressed by the fora for economic governance, the International Financial Institutions (notably the International Monetary Fund and the World Bank) and the World Trade Organisation.

With these challenges in mind, since 2002 most of the multilateral institutions have taken some steps towards reform and new policy approaches. The United Nations system has undertaken discussions exploring means to improve its coherence. The Bretton Woods institutions have launched initiatives to reinforce developing countries’ inclusiveness. Organizations such as OECD have worked on an enlargement process; the G8 have embarked on a process to deepen cooperation with emerging economies.

### **Bretton Woods Institutions Reform**

Since 2002, the Bretton Woods Institutions have undertaken several initiatives to align their governance structure with changing positions of member countries in the world economy, to enhance participation of developing countries in decision-making (e.g. through alleviation of capacity constraints) and to increase the

number of developing and transition country representatives in senior management positions. Most importantly, at the September 2006 Annual Meeting the IMF launched a comprehensive two-year program of quota and voice reforms, including, among others, the decision on a quota increase for China, Korea, Mexico and Turkey in the Fund. The World Bank has also been addressing the issue of governance reform in its work agenda.

The EU recognizes that governance reforms are essential to the continued effectiveness, legitimacy and credibility of the Bretton Woods Institutions. We therefore continue to support the efforts of current governance reform at the World Bank and IMF. We believe that the two main goals are firstly, to ensure that the distribution of quotas and shares adequately reflects the member countries' economic weight and role in the global economy and financial system. Secondly, we support the strengthening of the voice of low income countries in the IMF and the World Bank inter alia through a substantial increase of basic votes. In order to advance, the EU encourages all countries to forge a consensus on the new IMF quota formula in spring 2008, as foreseen in the Singapore resolution of September 2006, and to revitalize and bring forward the discussion on reform options in the Bank at its 2008 Spring Meeting. Furthermore, we call for an open, transparent process, based on merit, in selecting President/Managing Director for the WB and IMF.

### **World Trade Organisation**

The EU notices a very positive development that developing countries are acquiring a growing weight in the international trade arena and in WTO in particular. Therefore, the EU will continue supporting the WTO initiatives designed to help developing countries build the necessary capacity to participate in WTO and other international trade negotiations. At same time the work of UNCTAD is supported by the EU as an integral part in this respect.

The EU will continue to support the WTO sustained dialogue on trade finance and on-going working relations with international financial organisations such as the IMF, the WB and the OECD to coordinate the financing in favour of developing countries, and perhaps more importantly, strengthening developing countries' capacity to handle trade finance instruments and build adequate trade finance institutions that will support trade transactions in an efficient and cost-effective manner. This co-operation between WTO, IMF, WB and OECD focuses on: Cooperation on Policy analyses, surveillance and research; Technical cooperation and capacity building; Financial assistance; Aid for Trade.

The EU remains strongly committed to the WTO Aid for Trade initiative which supports developing countries in their own efforts to profit from improved trading opportunities. The EU has committed to raise its overall Trade Related Assistance to €2 billion by 2010. We are also committed to continue and strengthen our support for demand-driven, pro-poor development strategies, which incorporate building productive capacities, trade related infrastructure and trade-related adjustment. Aid for Trade, that links trade with development, has gained increasing importance and attention with the realisation that many of the poorest countries lack the capacity to take advantage of open markets. Therefore,

increased and more effective Aid for Trade is needed to support developing countries, in particular LDCs, to be better integrated into the world economy and to use trade as an engine of growth and poverty reduction in the context of sustainable development. The EU would further like to stress the impacts of Aid for Trade on sustainable poverty reduction, recognising in particular that further economic empowerment of women deserves high attention as an essential cross-sectoral dimension of Aid for Trade.

A successful conclusion of the Doha Round trade negotiations, based on an ambitious, balanced and comprehensive agreement, depends on developed and developing countries alike. We believe that a serious substantive engagement by all concerned, namely WTO members, is needed if we want to avoid economic costs and damage to the multilateral trading system, especially for developing countries. Gains and costs which result from trade liberalisation must be shared in an equitable way among all trading partners. In this respect Aid for Trade serves as a helpful complement to reduce adjustment costs and smooth adjustment processes. Trade policy should be viewed as mutually supporting national policies that will promote structural adjustment by the efficient allocation of labour and capital, while preserving during liberalisation a sound and stable macroeconomic and social environment. In this sense, we must pay particular attention to Small and Medium Enterprises (SME) in order to promote a better adaptation to globalization challenges.

## **OECD**

The EU recognises OECD contribution in collecting data, identifying good practices and setting up standards in various fields including development issues and economic rules. We welcome the opening of negotiations with a view to future enlargement to new members, the enhanced dialogue with emerging economies as well as the development of North-South dialogue in several working groups related to development issues. This enlargement and enhanced engagement (EEE) process will strengthen the role of the OECD as a "hub of globalization" and the role of the DAC as a reference for ODA data collection and dialogue on good practices. We also appreciate the OECD hosting the Heiligendamm Process between the G-8 and the O5.

### *Remaining challenges and further implementation of the Monterrey Consensus*

- **Global norm setting**

Regarding **norm setting**, the Monterrey Consensus points to the importance of ensuring effective and equitable participation of developing countries and countries with economies in transition in the formulation of financial standards and codes and in their implementation on a voluntary and progressive basis. We have witnessed an increasing number of international initiatives concerning standards and codes and an increasing number of developing countries and countries with economies in transition participating.

The challenge remains, however, to involve all parties concerned, including the private sector and relevant civil society groups such as professional women's organizations, in norm-setting and adhering to these norms. Another challenge is to ensure that standards and codes are mutually consistent and, at the same time, flexible enough to be effectively applied in both advanced and less advanced financial systems. For example, the Reports on the Observance of Standards and Codes (ROSC), an initiative launched by the IMF that subsequently became a joint Bank-Fund initiative, provides a framework to strengthen soundness and transparency of markets, institutions and policies. The EU invites all countries to join the initiative.

The IFIs (World Bank and regional development banks) have continuously strengthened their coordination and harmonization on common standards and best practices, for example in the areas of debt sustainability, aid allocation, disbursement and criteria for allocation of grants vs. credits.

- **Social dimension of globalisation**

The Monterrey Consensus supported the work on the social dimension of globalisation. In support of fair globalisation, the UN World Summit in 2005 decided to make the goals of full and productive employment and decent work for all a central objective of national and international policies, followed by the ECOSOC Ministerial Declaration in 2006. The European Union is promoting the implementation of the decent work agenda.

- **Regional Cooperation**

The EU regards **the regional development banks** as playing a vital role in the respective regional governance structures. With the regional members holding the majorities in all regional development banks, they are an outstanding example of regional ownership in development. Due to their close ties within the regions and their vast regional expertise they are well suited to support policy dialogue on a range of issues. Several regional development banks have embarked on close cooperation with regional integration schemes on issues such as financial stability or trade integration which the EU members of the respective banks have continuously supported.

- **Strengthening the role of the UN**

The UN system is discussing system-wide coherence in various areas and undertakes **efforts to strengthen the GA and the ECOSOC**. The ECOSOC has been tasked to continue to strengthen its role in the system-wide coordination and the follow-up to the outcomes of the major United Nations conferences in the economic, social and related fields and it plays a key role in enhancing collaboration between the UN and the other main institutional stakeholders of the Monterrey Consensus. It is important to keep all United Nations funds, programmes and agencies involved in the financing for development process.

Also with respect to **enhancing dialogue and cooperation between the UN system and other multilateral financial, trade and development institutions**, Spring meetings of ECOSOC with BWI, WTO and UNCTAD, and the biannual High Level Dialogue on Financing for Development have proven to be a useful forum of discussion and exchange of information. This approach allows for horizontal coordination that is critical in keeping FFD on the agenda of the relevant bodies and ensuring that the approach to this agenda is maintained current and relevant. This is particularly important as the main focus of implementation of Monterrey Consensus does not lie within UN, but with its member states and relevant stakeholders.

- **Besides above mentioned “general coordination issues”, the Monterrey Consensus calls for increased cooperation in a number of specific areas/ sectors:**

- We particularly welcome efforts of the International Monetary Fund to sharpen **tools designed to promote international financial stability and enhance crisis prevention**, through improved surveillance of finance sector and systemically important countries. To this end, it is essential to place the investigation of risks in the financial system at the centre of the IMF’s activities, show how local financial market developments may affect financial markets globally and provide suggestions.
- The EU also welcomes **the consultations undertaken by the IMF to address global imbalances**, in a manner that sustains economic growth and the policies necessary to reduce the imbalances. This can be done through exchange rate policies and domestic economic policies in a way that fosters domestic stability because unstable domestic conditions can cause severe disturbances to external stability.
- We encourage the IMF to **analyse the repercussions of financial sector developments on the real economy** more intensively and to enhance cooperation among the members of the FSF (Financial Stability Forum) as well as between the FSF and other relevant market participants.
- The Consensus calls for **mainstreaming the gender perspective into development policies** at all levels and in all sectors. The EU stresses that under a truly systemic approach it is not enough and by no means effective to address gender equality and the empowerment of women in development policies only. Gender perspectives need also to be mainstreamed and thus fully integrated in economic and financial policies and public finance management. The EU supports the statement of the UN Secretary General<sup>1</sup> that significant achievements have been made in the area of gender responsive budgets but further efforts are needed to ensure a shift from analysis to implementation, and to broaden the focus to include both revenue and expenditures. The Monterrey Consensus itself stresses the need of an integrated policy and agency approach to the interconnected national, international and systemic challenges of financing

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<sup>1</sup> E/CN.6/2008/2

for development – sustainable, gender-sensitive, people-centred development – in all parts of the world, not only in developing countries.

- Also, international oversight institutions should continue strengthening existing mechanism like the **United Nations Convention against Corruption** (UNCAC) and **regional Anti-Corruption Conventions**. The implementation and operationalization of the UNCAC, which entered into force in December 2005, should be further promoted. Particularly efforts should be made in the work towards an agreement concerning review mechanism and the topic of asset recovery (including the issue of illicit financial flows).
- The Consensus also calls for greater international cooperation in **tax issues**, such as combating tax evasion, taxation of services and natural resource use, and tax administration.
- The EU believes that attention must be given to **global and regional public goods** that are not properly dealt with at a national scale and that international governance and financing systems must better take into account. These include, along with financial stability and international trade that are already included in the Monterrey agenda, achieving peace and security, tackling climate change, preventing the spread of infectious diseases and improving knowledge creation and management.