CSO Statement on Global Governance and Monetary System

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Reform of international financial institutions

Most developing countries still feel excluded from decision-making at many powerful **international financial institutions (IFIs) and forums**, such as the **Financial Stability Board** (FSB), while reform at the Bretton Woods institutions is so slow and minor that they continue to slip further away from global economic realities and basic democratic standards.

In the wake of the economic crisis, the FSB was given a key role in setting new standards and agreeing new regulatory proposals in the financial sector. However, its membership is problematic. Although it includes G20 member states, several of which are large emerging markets, it excludes the vast majority of UN member states, and includes several smaller jurisdictions that are at the centre of financial secrecy and tax dodging problems, including Switzerland, the Netherlands and Singapore.[1] Several globally important international financial standard-setting bodies exclude most developing countries; however agreements would be embraced if countries felt ownership of them through participation in their drafting.

Governance changes at the Financial Stability Board, IMF and World Bank

At Doha, Heads of State agreed that "the reform of the international financial architecture should focus on providing greater transparency and strengthening the voice and participation of developing countries and countries with economies in transition in international decision-making and norm-setting". However, current reform efforts are slow.

1. The Brisbane G20 summit welcomed new FSB governance reforms, as do we, but they do not go far enough. Moreover, the FSB announced its intention to focus more on issues of concern to developing countries. We welcome that it was decided to hold an *Emerging Market Forum* in early 2015 to identify and discuss issues of importance to emerging market and developing economies (EMDE) that the FSB should address. The Forum will help to inform the FSB on the further work that it should do on developing countries-related issues.

→ The FSB, Basel Committees, and other international institutions should take steps to further open their membership, with the goal of achieving balanced, institutionalized participation by developing countries.

2. Heads of states agreed at Doha in 2008 that: "the Bretton Woods institutions must be comprehensively reformed",[2] yet it is at the Bretton Woods institutions that the governance gap is most problematic, because they wield considerable power and influence on the side of creditors to developing countries, particularly during times of crisis.

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[1] http://www.financialstabilityboard.org/members/links.htm

[2] See footnote 4

In 2010, the **International Monetary Fund** agreed minor reforms to its voting structure that independent analysis shows would have reduced the voting share of 'advanced economies' by less than 3%, to 55% of the total.[3] Even this minor shift – which still leaves the rich world in control of the institution – has not yet been ratified by the US Congress. Without its support the mandated majority for passage cannot be reached, which has prevented the 2010 deal from being implemented.

→ The extension of the use of double majority voting at the IMF – requiring relevant majorities of both votes and countries to approve proposals – would be a simple but effective way of giving developing countries a fair voice.

3. The **World Bank** often emphasizes that developing countries have half the votes and board seats, but this is questionable: the claim is based on counting 16 rich countries such as Saudi Arabia as 'developing countries'. In fact, independent analysis shows that high-income countries retain over 60% of the vote at the Bank.[4]

→ The World Bank should implement equality in voting shares between borrowing and non-borrowing countries, as a first step towards more significant reform.

Global Economic Governance

1. As concluded in Monterrey and numerous UN discussions and resolutions in recent years, the UN has a fundamental role in the promotion of international cooperation for development and for a global economic system that works for everyone. The UN General Assembly and the Economic and Social Council (ECOSOC) both play a pivotal role in the voice and substantive outcomes produced by the UN system. However, these important bodies have not been given sufficient mandate, resources or role, leaving a huge hole at the centre of global economic policy making, with no effective means of coordination – let alone consultation – that includes all countries. While the shift from the G8 to the G20 as the focus of global economic discussion signaled a change in power dynamics, the G20 is proving ineffective at global coordination. Part of the problem stems from its design: it is an ad hoc group of governments that use their influence over other multilateral institutions, particularly the IFIs, the OECD and the FSB, to implement policy decisions that impact the world's countries. The other major issue is that the G20 does not represent the interests of the majority of UN Member States.

→ a) A far better approach, called for by the UN Commission of Experts on Reforms of the International Monetary and Financial System, would be to set up a representative ***Global Economic Coordination Council* at the UN**, with a mandate to "assess developments and provide leadership in economic issues while taking into account social and ecological factors".[5]

b) A second proposal would be that proposed by the "High-level UN Panel on System-Wide Coherence" in November 2006: the creation of a ***Global Leaders Forum (L-27)*** of heads of state and government under ECOSOC, comprising the leaders of half of the ECOSOC membership, rotating on the basis of equitable geographic representation, with the participation of the heads of the major international financial institutions).

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[3] http://www.brettonwoodsproject.org/2010/11/art-567219/
[4] http://www.brettonwoodsproject.org/wp-content/uploads/2014/04/WBgovreforms2010.pdf
[5] UN, (2009). Report of the Commission of Experts of the President of the UNGA on Reforms of the International Monetary and Financial System. UN. New York.

c) Another approach would be to mandate the ***High-level Political Forum on Sustainable Development,*** *comprising all UN Member States* to provide global leadership in economic and finance issues and set up working groups on specific economic issues that meet throughout the year to prepare concrete proposals.

d) If these proposals are not agreeable, a ***Financing for Development Commission*** (intergovernmental body) should be set up to discuss further proposals developed by the FfD Multistakeholder Dialogues, which are done on specific issues.

2. Of course, the solutions do not only lie at the global level but at **the regional levels**, where the principle of subsidiarity can apply**.**

→ **Regional monetary units and reserve funds** have been set up as additional approach in the absence of adequate global alternatives. In a more efficient global system, regional institutions should be necessary supporting structures. Moreover, attempts to better regulate and coordinate at a regional and global level should not come at the expense of developing countries' policy space to design their own path to development.

In sum. the system of global economic governance is in urgent need of an overhaul to give developing countries a fair and equitable seat at the decision-making table at all international organizations and financial institutions, to strengthen transparency and accountability, and to tackle key international problems, while respecting developing countries' policy space.

3. Responsible financing standards: a concrete proposal

→ Finally, the Addis Conference should start an initiative on global standards of responsible financing and investment**.** The UN could pull together and strengthen the various existing initiatives into a comprehensive and strong set of standards and provide for their adequate monitoring so that the standards are properly implemented. The main international initiatives include the UN Environment Programme's Principles for Responsible Investment, UNCTAD's Principles on Responsible Sovereign Lending and Borrowing, the Human Rights Council's Guiding Principles on Foreign Debt and Human Rights (A/HRC/20/23) and its Guiding Principles on Business and Human Rights (A/HRC/17/31), the OECD's Guidelines for Multinational Enterprises and the Equator Principles adopted by 80 private financial institutions. A common shortcoming is that these standards are voluntary, focused on a 'do no harm' approach, have poor tools to monitor compliance, and leave large swathes of finance outside their scope.

Also we, civil society organizations (CSOs), have proposed concrete alternatives, intended to make sure international finance has positive impacts for sustainable development, such as Eurodad's Responsible Finance Charter[6] and Afrodad's "Borrowing Charter" for African governments.[7] Given the growing recognition that all forms of development financing have specific threats and opportunities as for women's rights, this vital agenda must be fully integrated into FfD negotiations and outcomes. Monterrey highlighted that "gender-sensitive, people-centred development in all

[6] Molina, Nuria. (2011). Responsible Finance Charter. Eurodad. Brussels.
[7] African Forum on Debt and Development, „Borrowing Charter: Principles and Guidelines on Sovereign Financial Borrowing by African Countries," Revised edition, Harare, 2013.

parts of the globe is essential" and issued a call to "mainstream the gender perspective into development policies at all levels and in all sectors".

In sum: The FfD Addis Conference gives an opportunity for the UN to exercise global leadership by developing a **clear framework** of **responsible financing standards** that draws together the existing standards, identifies and fills in gaps and strengthens the mechanisms and incentives for compliance. This could incorporate the intention of the resolution adopted by the Human Rights Council in Geneva in June 2014 to establish a working group to prepare an instrument imposing international human rights legal obligations on transnational corporations (A/HRC/RES/26/9).