

SYSTEMIC ISSUES

Paper Outline:

1. Background (Significance of Addis for systemic issues)
2. Overview of UN and EU commitments on systemic issues
3. Narrative position for discussion
4. Recommendations on systemic issues for Addis for discussion

1. Background

One of the most historic achievements of the International Conference on Financing for Development in 2002, was the consensus achieved on so-called "systemic issues." In a very unique moment of multilateralism, the international community agreed that enhancing the coherence, governance and consistency of the international monetary, financial and trading systems was essential and urgent to complement development efforts. However, progress on this chapter of the Monterrey Consensus has been the slowest.

The Monterrey Consensus included detailed commitments on systemic reform. They went beyond commitments on IFI reform to also address reform of other financial standard setting bodies such as the Bank of International Settlements (BIS), the Basel Committees and the Financial Stability Board (Para 63). It also recognised the fundamental importance of reinvigorating the UN system to a global economic system that worked for all (Para 27). Language in the Doha Outcome document was remarkably toned down in contrast. It restricted its commitment to the reform of the Bretton Woods Institutions (Para 73). It also did not speak of the critical role the UN played in the global economic system. Instead it only called for greater coordination between the UN system and all other multilateral trade, financial and development institutions (Para 69). The change from spirited to subdued multilateralism from Monterrey to Doha is also a reflection of the times. The Monterrey Conference took place on the heels of the Millennium Summit and its lofty ambitions in the Millennium Declaration. On the other hand, the Doha Conference took place in the midst of a deep political deadlock on what role the UN should play in addressing the international financial crisis. The UN Conference on the International Financial and Economic Crisis in June 2009 that aimed to do precisely this was a disappointing show of a breakdown of multilateralism just when it was needed most. The G20 that brought together the 20 most industrialised and rapidly industrialising countries, many of whom were responsible for the financial crisis, has since become the international space to address international financial institutional reform. It has demonstrated very little ambition to work on a reform agenda to ensure that the international monetary, financial and trading systems genuinely supports sustainable development. Its development agenda has rather focussed on stepping up infrastructure development through modalities such as Public Private Partnerships.

Against this backdrop, the outlook to secure concrete outcomes on systemic issues in Addis may seem to be very bleak. Yet it remains essential to call attention to the unmet commitments of the Monterrey Consensus, to critique the failure of efforts to enhance the legitimacy of the BWIs, the transparency of the WTO and to address developing countries' concerns about the unbalanced governance and representation in global financial standard setting bodies. More concretely, Addis offers opportunities to call for further and deeper reforms of the Bretton Woods Institutions to enhance the voice and vote of developing countries. Additionally, the discussion on "Means of Implementation" of the Post-2015 framework offers a new opportunity to once again raise the demand to strengthen the leadership role of the UN,

EU Position:

A. Governance reform

The EU Accountability Report 2014 states that the EU considers that the implementation of the World Bank voice reforms as well as the IMF Quota and Governance reform is a priority. It reports

that all EU Members States have already fully concluded national ratification procedures of the 2010 Quota and Governance Reform and expects the next review round which was postponed this year to January 2015 to "further increase quota shares of emerging market and developing countries, in line with their relative positions in the world economy." The EU position is reflective of the G20 position which has restricted itself to IMF quota and governance reform only to reflect the changed positions of "emerging economies" rather than to adequately address the lack of adequate representation and lack of voice of developing countries in general in the Bretton Woods Institutions.

B. UN leadership

The EU has a relatively positive stated position towards the UN, supportive of the fundamental role of the UN system in global governance.¹ Significant EU voices in the past have even called for a UN Economic and Social Security Council.² Yet, the relevant extract of the most recent EU Accountability Report reflects a more ambivalent position, welcoming "informal engagement" and dialogue between the UN and the G20 and the practice of inviting the UNSG and regional groupings to G20 meetings. Its position on the UN's role on trade governance is clearer, stating that the "UN's leadership role in development gives it a major role in global efforts aimed at making trade openness work for development and poverty reduction, including through technical assistance and capacity building, support to good governance and ownership.

C. Policy Space

The EU's position on this issue is guided by the Busan Principles of Effective Development Cooperation of country ownership, inclusive development partnerships etc. Consequently, the EU views this issue as being closely related to its responsibilities and commitments within the aid effectiveness agenda -and the present Global Partnership on Effective Development Cooperation. The EU FfD position does not address issues of policy space with regard to trade liberalisation, capital controls and such broader macro-economic issues.

D. Policy Coherence for Development

The EU Accountability Report demonstrates great ambition to make a "useful contribution" to the international debate on the role of Policy Coherence for Development in the implementation of the Post-2015 Framework. This could be a useful point of engagement with the EU around policy coherence on trade and finance.

¹ Article 21 of the Lisbon Treaty states:...[The Union] shall promote multilateral solutions to common problems, in particular in the framework of the United Nations.

² For instance, the EU Commissioner for Development and Humanitarian Affairs Louis Michel in 2008 called for the development of an 'Economic and Social Security Council' in his speech on 'The impact of the crisis on developing countries' at the Informal Meeting of EU Development Ministers, Prague, 30 January 2009; similar calls were made by French President Nicolas Sarkozy and German Chancellor Angela Merkel at an international symposium on the financial crisis, Paris 8 January 2009.

2. Overview of UN and EU commitments on systemic issues

A. Governance reform

Monterrey Consensus 2002	Doha FfD Declaration 2008	UN Financial and Economic Crisis Outcome 2009	Rio+20 Outcome: Future We Want, 2012	EU Position
Efforts (to reform the international financial architecture) need to be sustained with greater transparency and the effective participation of developing countries and countries with economies in transition (Para 53 p18)	We resolve to undertake appropriate and timely steps to improve the functioning of the international economic and financial system. It is essential to maintain the involvement of the UN in these undertakings. (Para 69, p 26)	We commit to working in solidarity on a coordinated and comprehensive global response to the crisis and to undertaking actions aimed at, (...) reforming and strengthening the international financial and economic system and architecture, as appropriate, to adapt to current challenges (Para 11)	We acknowledge the vital importance of an inclusive, transparent, reformed, strengthened and effective multilateral system in order to better address the urgent global challenges of sustainable development today, recognizing the universality and central role of the UN and reaffirm our commitment to promote and strengthen the effectiveness and efficiency of the UN system (Para 77, p 15)	
It is essential to ensure the effective and equitable participation of developing countries in the formulation of financial standards and codes. (Para 57 p19)	We recognize the need to address the often expressed concern at the extent of representation of developing countries in the major standard-setting bodies. We therefore welcome the proposed expansion of the membership in the Financial Stability Forum and encourage the major standard-setting bodies to review their membership promptly while enhancing their effectiveness (Para 76, p 28)	We reaffirm the need to address the often expressed concern at the extent of representation of developing countries in the major standard-setting bodies. We therefore welcome, as a step in the right direction, the expansion of the membership in the Financial Stability Board and the Basel Committee on Banking Supervision and encourage the major standard-setting bodies to further review their membership promptly while enhancing their effectiveness, with a view to enhancing the representation of developing countries as appropriate. (Para 48, p 12)	We reaffirm the importance of broadening and strengthening the participation of developing countries in international economic decision-making and norm-setting (...) (Para 92, p 19)	
We stress the need to broaden and strengthen the participation of developing countries and countries with economies in transition in	Welcoming the ongoing international discussions on global economic governance structures, we acknowledge the need to			

<p>international economic decision-making and norm-setting (Para 62 p 20)</p>	<p>ensure that all countries, including LICs, are able to effectively participate in this process. This debate should review the international financial and monetary architecture and global economic governance structures in order to ensure a more effective and coordinated management of global issues,. (Para 78, p 28)</p>			
<p>We encourage the following actions: IMF and WB: to continue to enhance participation of all developing countries and countries with economies in transition in their decision-making, (...) WTO: to ensure that any consultation is representative of its full membership and that participation is based on clear, simple and objective criteria BIS, Basel Committees and FSB: to continue enhancing their outreach and consultation efforts with developing countries and countries with economies in transition at the regional level, and to review their membership, as appropriate to allow for adequate participation Ad hoc groupings that make policy recommendations with global implications: to continue to improve their outreach to non-member countries and to enhance collaboration with the multilateral institutions with clearly defined and broad-based intergovernmental mandates. (Para 63, p20)</p>	<p>We reaffirm that the IFIs, including the BWIs, need to be further reformed. (Para 73, p27) We underscore that the BWIs must be comprehensively reformed so that they can more adequately reflect changing economic weights in the world economy and be more responsive to current and future challenges. We reaffirm the enhancement of voice and participation of developing countries in the BWIs in accordance with their respective mandates (...). We recognise the governance reforms that the IFIs have already undertaken, including the recent agreement regarding the quota review and voice reforms at IMF and related steps in the World Banks, and encourage further reforms in that direction. (Para 77, p 28)</p>	<p>We stress the urgent need for further reform of the governance of the BWIs, on the basis of a fair and equitable representation of developing countries, in order to increase the credibility and accountability of these institutions. (Para 43, p11) We call for an expeditious completion of the reform process of the WB's governance and of an accelerated road map for further reforms on voice and participation of developing countries, with a view to reaching agreement by Apr/ 2010 (...). We also call for inclusive consultations on further reforms to improve the responsiveness and adaptability of the WB (Para 44, p 11) We recognize that it is imperative to undertake, as a matter of priority, a comprehensive and fast-tracked reform of IMF. (...) We acknowledge the agreement to accelerate the implementation of the package of IMF quota and voice reforms agreed in April 2008. We strongly support completion of the next quota review, which based on current trends, is expected to result</p>	<p>(...)take note of recent important decisions on reform of the governance structures, quotas and voting rights of the BWIs, better reflecting current realities and enhancing the voice and participation of developing countries, and reiterate the importance of the reform of the governance of those institutions in order to deliver more effective, credible, accountable and legitimate institutions (Para 92, p19)</p>	<p>(...) The Council welcomes the G20 agreement (...) on the form of the mandates, scope and governance of [IFIs] to reflect, inter alia, changes in the world economy and the new challenges of globalisation to ensure greater voice and representation for emerging and developing countries, including open, transparent and merit-based top management selection processes (Para 36 CCs 18 May 2009)</p>

		<p>in an increase in the quota shares of dynamic economies, particularly in the share of emerging market and developing countries as a whole, to be completed no later than Jan 2011, thus enhancing the legitimacy and effectiveness of the Fund. (Para 48, p 12)</p> <p>We agree that the heads and senior leadership of the IFIs, particularly the BWIs, should be appointed through open, transparent and merit-based selection processes, with due regard to gender equality and geographical and regional representation. (Para 49 p 12)</p>		
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B. UN Economic Council

Monterrey Consensus 2002	Doha FfD Declaration 2008	UN Financial and Economic Crisis Outcome 2009	Rio+20 Outcome: Future We Want, 2012	EU Position
<p>We attach priority to reinvigorating the UN system as fundamental to the promotion of international cooperation for development and to a global economic system that works for all. (Para 67 p21)</p>	<p>We resolve to strengthen the coordination of the UN system and all other multilateral financial, trade and development institutions to support economic growth, poverty eradication and sustainable development worldwide, Greater cooperation between the UN, the BWIs and the WTO is needed, based on a clear understanding and respect for their respective mandates and governance structures. (Para 69, p 26)</p>	<p>We request the Economic and Social Council:</p> <p>(d) Review the implementation of the agreements between the UN and BWIs in collaboration with these institutions, focusing in particular on enhancing collaboration and cooperation between the UN and the BWIs, as well as on the opportunities for contributing to advancing their respective mandates;</p> <p>(e) Consider and make recommendations to the GA regarding the possible establishment of an ad hoc panel of experts on the world economic and</p>	<p>We commit to strengthen the Economic and Social Council within its mandate under the Charter, as a principal organ in the integrated and coordinated follow-up of the outcomes of all major UN conferences and summits in the economic, social, environmental and related fields, and recognize its key role in achieving a balanced integration of the three dimensions of sustainable development. We look forward to the review of the implementation of the General Assembly resolution 61/16 of 20 Nov. 2006 on the strengthening of the Council</p>	<p>The Council is in favour of a key role for the UN in the efforts to help developing countries tackle a variety of global social, economic, financial and environmental challenges and foster sustainable development in all its dimensions. (...) Coherence and coordination of policies between the UN, the IFIs and the relevant regional organisations should be strengthened. The Council calls on the UN, working with other relevant institutions, to monitor the impact of the crisis on the poorest and most vulnerable (Para 33 CC 18 May 2009)</p>

		financial crisis and its impact on development. The panel could provide independent technical expertise and analysis, which would contribute to informing international action and political decision-making and fostering constructive dialogues and exchanges among policymakers, academics, institutions and civil society. (Para 56, p13)		
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C. Policy Space

Monterrey Consensus 2002	Doha FfD Declaration 2008	UN Financial and Economic Crisis Outcome 2009	Rio+20 Outcome: Future We Want, 2012	EU Position
<p>(...)There is a need for the multilateral and bilateral financial and development institutions to intensify efforts to (...)</p> <p>-Use development frameworks that are owned and driven by developing countries and that embody poverty reduction strategies, including poverty reduction strategy papers, as vehicles for aid delivery, upon request;</p> <p>-Enhance recipient countries' input into and ownership for the design, including procurement, of technical assistance programmes; and increase the effective use of local technical assistance resources (Para 43, p15)</p>	<p>We acknowledge that the optimum pace and sequence of trade liberalization deepens on the specific circumstances of each country, and that each country will make this decision based on its own evaluation of the costs and benefits.(Para 33, p15)</p>	<p>Countries must have the necessary flexibility to implement countercyclical measures and to pursue tailored and targeted responses to the crisis. We call for a streamlining of conditionalities to ensure that they are timely, tailored and targeted and support developing countries in the face of financial, economic and development challenges. (...) New and ongoing (IMF) programmes should not contain unwarranted procyclical conditionalities. (Para 17, p6)</p>	<p>We affirm that green economy policies in the context of sustainable development and poverty eradication should:</p> <p>(b) Respect each country's national sovereignty over their natural resources, taking into account its national circumstances, objectives, responsibilities, priorities and policy space with regard to the three dimensions of sustainable development;</p> <p>(g) Effectively avoid unwarranted conditionalities on ODA and finance (Para 58, p 11)</p>	<p>The [EU's] joint programming process, which wherever possible is led by partners countries, aims to provide a joint response of the EU and its MS to partners countries' development strategies and therefore strengthen alignment, coordination and ownership. It is underway in 20 partner countries, and may cover up to 40 partner countries over the next few years. In the programming period 2014-2020, joint programming will cover a considerable share of EU bilateral development cooperation instruments.</p> <p>(...) Going forward, [the EU] will endeavour to align [EU Aid for Trade] with the development strategies of partner countries (Para 15 CCs 12 Dec 2013)</p>

D. Policy Coherence

Monterrey Consensus 2002	Doha FfD Declaration 2008	Rio+20 Outcome: Future We Want, 2012	EU Position
<p>(...)Efforts should be strengthened at the national level to enhance coordination among all relevant ministries and institutions. Similarly we should encourage policy and programme coordination of international institutions and coherence at the operational and international levels to meet the Millennium Declaration development goals of sustained economic growth, poverty eradication and sustainable development (Para 52 p18)</p>	<p>We encourage better coordination and enhanced coherence among relevant ministries in all countries to assist in the formulation and effective implementation of policies at all levels. We also encourage international financial and development institutions to continue to enhance policy coherence for development, taking into account diversified needs and changing circumstances. In order to complement national development efforts, we call on all countries whose policies have an impact on developing countries to increase their efforts to formulate policies consistent with the objectives of sustained growth, poverty eradication and sustainable development of developing countries</p>	<p>States are strongly urged to refrain from promulgating and applying any unilateral economic, financial or trade measures not in accordance with international law and the Charter that impede the full achievement of economic and social development, particularly in developing countries. (Para 26, p6)</p>	<p>The Council confirms its political engagement to Policy Coherence for Development (PCD), reaffirms all its existing PCD commitments and recalls the Treaty obligation to take account of the objective of development cooperation in the policies which are likely to affect developing countries, as well as to pursue these objectives in the overall framework of the Union's external action. (Para 1, CC on PCD, 12 Dec. 2013)</p>
<p>To strengthen the effectiveness of the global economic system's support for development, we encourage the following actions:</p> <p>Improve the relationship between the UN and WTO for development, and strengthen their capacity to provide technical assistance to all countries in need of such assistance</p> <p>Support the ILO and encourage its ongoing work on the social dimension of globalization</p> <p>Strengthen the coordination of the UN system and all other multilateral financial, trade and development institutions (...)</p> <p>Mainstream the gender perspective into development policies at levels and in all sectors</p> <p>Strengthen international tax cooperation,</p>			

<p>through enhanced dialogue among national tax authorities and greater coordination of the work of the concerned multilateral bodies and relevant regional organizations, giving special attention to the needs of developing countries and countries with economies in transition;</p> <p>Promote the role of the regional commissions and the regional development banks in supporting policy dialogue among countries at the regional level on macroeconomic, financial, trade and development issues (Para 64, p20-21)</p>			
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3. Narrative position for discussion

The Financing for Agenda has laid out an ambitious reform agenda to ensure that the international financial, trade and development systems work in coherence and coordinate efforts to promote sustainable development. Yet the international financial and economic crisis demonstrates that this agenda has been largely ignored. An out-of-balance financial system resulting from haphazardly regulated financial actors and minimally controlled markets has led to increased levels of inequality across the globe. Social well-being in societies most affected by the crisis has dramatically fallen and financial commitments for public goods, including the global effort to eradicate poverty and combat climate change have been curtailed. The Third Financing for Development Conference in Addis Ababa in July 2015 comes at a critical moment. Soon after the Conference the international community will set itself a new agenda that for the first time aims to bring together global aspirations and action to secure human and planetary well-being in the face of climate change. More than ever before it will be critical to agree on the means to ensure that the systems of finance, trade and development - from the global to the local level - support the aspirations of the new Post-2015 agenda, the Sustainable Development Goals and binding agreements to tackle climate change and protect particularly the most vulnerable people on the planet from its impacts.

4. Recommendations on systemic issues for Addis for discussion

A. Governance reform

There is no time for the EU to rest on its laurels that it has done its part of the deal with regard to the reform of the Bretton Woods Institutions. The deadline to reform the BWIs quota formula risks being missed again. The stagnancy of action in this agenda belies the critical development importance of implementing this reform. Many borrowing countries continue to be denied adequate and fair voice in the Boards of these Institutions despite the considerable impact decisions made by these bodies have on their development prospects. The EU must recognise and promote the need for a more balanced and equitable approach to reforming the decision-making bodies of these institutions. Such an approach could be to ensure that variables related to the "demand for" and supply of" finance are sufficiently reflected in the Boards for instance.

The Addis Outcome document must underline the urgency of implementing the long-discussed voice and vote reform agenda of the Bretton Woods Institutions. A key first step would be to introduce double majority voting at the IMF. It must also address the lack of voice and participation of developing countries in international standard setting bodies and underline the need to strengthen the UN in international economic governance.

It must also highlight the importance of regional and sub-regional schemes for monetary and financial cooperation, pooling of reserves and payment in domestic currencies.

B. UN Economic Council

The idea of an UN Economic Council has been tabled in the past by leading voices in the EU including former Commissioner for Development and Humanitarian Affairs Louis Michel in 2008 and former French President Nicolas Sarkozy and German Chancellor Angela Merkel in 2009. In its preliminary conclusions, the Stiglitz Commission³ has recommended the setting up of a Global Economic Council. Such a Council would be established at a level equivalent with the General Assembly and the Security Council and which would meet annually at the Heads of State and Government level to assess developments and provide leadership in economic, social and ecological issues.⁴

Based on the recommendations of the 1995 Report of the UN Commission on Global Governance, we call for the creation of a 'global council at the highest political level to provide leadership on issues of

³ A Commission of experts chaired by Nobel Prize winner Joseph Stiglitz and established by the United Nation's General Assembly President in late 2008.

⁴ Note by the President of the General Assembly, 19 March 2009.

global governance...through its political leadership it would provide a long-term strategic policy framework to promote development, secure consistency in the policy goals of the major international organisations and promote consensus building among governments on possible solutions for issues of global economic and social governance.'

The evolution of the ECOSOC to an Economic and Social Security Council would require amending the UN Charter. The new Post-2015 agenda and discussions on the Means of Implementation needed for the achievement of the Sustainable Development Goals provide the right opportunity to agree on such great transformative changes that will be critical to uphold this agenda. One possible scenario is that the Council have a limited number of seats, i.e. 25, and could adopt a well balanced rotation system, whereby none of these would be permanent or carry veto power.

C. Policy space

The EU through its policies and actions (or lack of them) as a major donor bloc; in its negotiations on Double Taxation Agreements (DTAs), trade agreements and investment protection treaties and other policies such as transfer pricing rules all too often undermine the policy space and ownership of developing countries. Depending on the quality of their investments, European companies also have an impact on the policy environment, economic space and development objectives in the countries where they operate. Through its significant share in the decision-making structures of international institutions, the EU also has a responsibility for the policies of IFIs and of the OECD.

As a major block of donors, the EU should act to complete the unfinished business of the Paris Declaration and the Accra Agenda and put the Busan principles of development cooperation effectiveness into practice. These should apply not only to public flows but the EU should also ensure that private flows abide by these principles.

The EU should lead by example and announce its commitment to refrain from pushing trade and investment agreements and international taxation standards that are detrimental to developing countries' economic and development interests and to their own regional integration processes in Addis. It must also promote inclusion of such a commitment in the Addis Outcome Document.

D. Policy Coherence

Upholding the principle of policy coherence for (sustainable) development by making concrete commitments and recommendations, can be a change-maker to determine the success of the new global agreements on sustainable development and climate change. The Report of the Intergovernmental Committee of Experts on Financing Sustainable Development recognised policy coherence for sustainable development as part of one of its 9 principles that guided the committee's strategic approach to a sustainable development financing strategy. We welcome the ambition demonstrated in the EU Accountability Report 2014 to contribute the EU's learning and experience to operationalise Policy Coherence for Development in international discussions in 2014. In line with this ambition the EU position for Addis must acknowledge the Union's specific responsibility this principle implies (inviting other industrialised countries to assume a similar responsibility) to ensure that due care is accorded to prevent their actions (or the actions of actors that fall under their jurisdiction) in all domains having a negative impact on- or undermining their own policy to support- the advancement of international commitments in the domain of sustainable development, climate change etc. The EU must stress the urgent need to establish mechanisms to monitor and assess the impact on sustainable development of new policies in its position for Addis.