

Interactive Thematic Dialogue of the UN General Assembly on the World Financial and Economic Crisis and Its Impact on Development

March 25, 2009 (Day 1)

MORNING SESSION:

Moderator - Maarten Wetland, Norway

- What caused the crisis was the belief in a self correcting system and increasing wealth. Low interest rates led to creativity in the financial sector and loopholes were exploited. Financial sector remuneration and a general dislocation in financial markets contributed. Then the liquidity collapse ensued, which turned into full blown crisis.

UN Department of Economic and Social Affairs (DESA) – Mr Jomo Kwame Sundaram, Assistant Secretary General

- “The UN and UNCTAD were among the two institutions that warned of an impending crisis.”
- Unsustainable global imbalances are at the root of the crisis. The international financial architecture has developed in an ad-hoc fashion since 1971. Deregulation and the potential of self-regulation opened up the debate, and even the IMF recognized that the financial globalization had not contributed to growth but greater instability.
- The crisis is a reflection of the failure of multilateralism, the G7 decided for the rest of the world and failed.
- Real investments have arguably decreased. The fate of developing countries is tied to the fate of developed economies.
- Is this a new Bretton Woods moment? The Bretton Woods system has had very little impact in the course of matters. It is used and marginalized by the G7. To go from the G7 to the G20 is not inclusive enough.

International Labor Organization

- In 2004, the ILO convened the commission on social justice for fair globalization, which came to the conclusion that the approach of the time was economically and socially unsustainable.
- We are now in a deflationary cycle, which entails job losses, reduced consumption, industrial uncertainty and reduced investment, which creates further job losses. Our estimation is that another 20-50 million persons will lose their jobs by the end of 2009. In terms of the most vulnerable groups, another 22 million women will be unemployed in comparison to 2007. There is a huge migration from the urban to the rural milieu. They estimate that another 25 million persons will find employment in ‘vulnerable work’ and wages in the informal economy are declining. This will push 200 million persons back into extreme poverty,

- erasing all progress on poverty eradication since the Millennium Development Goals were introduced.
- 95% of enterprises are small and medium enterprises, which rely on credit to grow. Credit is not available on the market place, as 80% of lending institutions have limited their credit.
 - Proposes a ‘Global Jobs Pact’ with decent work at the heart of fiscal stimulus. These should not be temporary measures. Large fiscal investments should be used to green the economy and increase social justice.

Economic Commission for Latin America and the Caribbean (ECLAC)

- World trade will contract up to 9%. Optimists think the world economy will recover in 2010, but this depends on policies. The mechanisms that pass on financial crisis to developing countries are complex.
- The impacts in the near future: credit will be harder for developing countries to attain, there will be a sharp decline in commodity prices, export will fall further, difficulties to fund countercyclical policies. Huge drops in access to external finance, especially in Latin America and Emerging Europe.
- The most probable scenario is a dip in the growth rate of developing countries, with recession in many of them.
- Employment is shifting from dynamic export-oriented sectors to low-productivity, informal sectors, which are lower-paid and less productive, meaning that real wages will be falling.
- As for responses at regional level: Asia has a better capacity to undertake counter cyclical measures, its fiscal packages are the second largest (to the US). In the Middle East, Egypt and Saudi Arabia are taking expansionary fiscal measures to maintain domestic demand. Latin America has announced counter cyclical measures.
- Regional institutions are implementing measures: For example, the African Development Bank has a 1.5 billion trade-finance facility. Latin American development banks have launched certain initiatives that are funding liquidity and boosting regional trade.
- But responses at the national and regional levels are not enough given domestic savings and the need to increase public spending. More liquidity is needed as developing countries do not have the ‘innate capacity’ to introduce countercyclical measures. They need help from IMF and the World Bank, which should enhance their lending capacity with light conditionality. Establish a UN credit facility.

COMMENTS

Professor Mario Baldassarri, Senator, Chairman of the Committee on Finance and Treasury of the Italian Senate

- We are missing a chapter on understanding the crisis: The problem does not only come from the financial crisis, but from previous real economy global

imbalances. *Then* came the financial crisis, which goes back to the global imbalances. The real cause was that the US was consuming 5% more than their GDP. The Chinese financed the US imbalance by creating credit to the US economy so the consumption could go on. This unsustainable long-run “real economy imbalance” created the impression that growth could go on forever. We cannot repeat the same kind of model we had before. We have to learn the lesson of the first chapter in this crisis.

- ‘Do we have the chance of building positive growth for everyone?’ We have to correct the world macroeconomic imbalances. The US cannot remain the power engine of the world economy. We need to push domestic demand in other economies. China, India and Europe are big economies with excessive savings that must go back to sustainable growth.
- Who is going to take these decisions? The G7 belongs to an old era. Increased legitimacy of the decision maker is necessary, otherwise other countries will not respect its decisions. The G20 is a beginning, but a new ‘G-something’ is needed. In a new Bretton Woods, all economies must enter WTO and the financial institutions.
- Each country wanted to have export-led growth, which has led to dependence on the rest of the world and on open economies. But so much depends on domestic demand. Sooner or later, Europe must grow at a higher level. China needs to switch from being export led to reliance on domestic demand. This would be good for China and the rest of the world.

Mr Andrey Denisov, First Deputy Foreign Minister of the Russian Federation

- This is a multifactor crisis, including the failure of the financial system, underestimated risks and a lack of appropriate responses from international bodies. There are no tools to govern market players and we have huge global imbalances and uneven distribution of wealth.
- The priority should be to establish a stable economic system and invoke financial discipline. There is a need for new fresh ideas. Russia’s ideas include a risk management system, a monitoring system, strengthening of regulation with incentives to get positive behavior.
- They consider the Stiglitz commission’s work a sound basis, but would appreciate a roadmap from the commission and suggestions for follow-up activities.
- The crisis requires global solutions that must have legitimacy. The UN is an unchallenged leader, and Russia attaches paramount importance to the conference in June hoping that it will provide a sound foundation for the reforms and a constructive dialogue. However, two months is a short time and we can not solve all problems in that time, but we can provide parameters for a new architecture. Suggests another conference of experts to elaborate proposals for a new basis, which would require the support of all countries and the support of G20.
- The key task of the UN is the promotion of the international development agenda, including the MDGs. Maintaining assistance to developing countries is important to support the most vulnerable populations.

QUESTIONS

Mexico (on behalf of the Rio group)

- The causes of the crisis are:
 - The longstanding imbalances in developed countries, particular in the US.
 - Deficiencies of the international economic and financial systems, which need reform.
 - Market regulation, which needs to be established.
 - Responsible management of fiscal accounts.
- The situation contains risks and challenges, including terms of trade, volatility of commodity prices, shortage of liquidity, foreign and domestic investment, worsening situation for migrant workers and protectionism.
- In responding to the crisis, we need a wide-ranging international dialogue and close supervision of the functioning of the international and national systems. The full participation of developing countries in the reform of international systems should be guaranteed.
- It is important to recall the central role the UN. The General Assembly must play in this reform process in order to guarantee coordination of different initiatives and provide legitimacy with its universal and democratic nature.

Thailand (on behalf of ASEAN)

- ASEAN countries have learned on the national level from Asian crisis that need to correct decisively and urgently. Deepening global crisis adversely impacted trade. Necessity of pro-active and decisive policy action to restore confidence, expansionary macro-economic policies, stress coordinating policy and taking joint action at regional level.
- We should remain open to global and regional trade, and ensure free flow of goods, service and investment.
- We need to ensure that the region is better equipped to overcome challenges, increase the size of the Chiang Mai initiative to 120 billion dollars. It could serve as a good example of regional financial cooperation.
- They will participate actively in the G20 summit in London ensure that developing countries' perspective will be taken into account.
- There is great need for an inclusive system with voices of emerging and developing countries.
- ASEAN emphasizes that the great attention paid to restoring confidence must not lose sight of sustainable development, climate change, food and energy security and the Millennium Development Goals.

Czech Republic (on behalf of the EU)

- This crisis has been compared to other crises, but it is the first real global crisis. It requires a global response with the UN and also civil society and business sector involvement.
- Impact of crisis on development - What the EU will do:
 - Aware of that a key part is global development support,

- The global crisis is not an excuse to water down development assistance commitments and aid for trade.
- Official Development Aid is key to help reduce poverty and to reach Millenium Development Goals, but alone it is not enough, need speed of delivery and flexibility of response. Also need full use of funding and financing of development oriented support including migration, climate change, peace and security.
- Global response is needed to promote employment, especially in certain sectors such as infrastructure, agriculture and renewable energy.
- Conclusion: we need coordinated response of G192, G20 etc. All need to work together. G20 in London and other initiatives must be seen as layers, one building on another. This crisis is an opportunity to rectify past wrongs.

Philippines

- Aligns with ASEAN nations.
- UN Conference in June should focus on measures to overcome the crisis and avoid crises in the future.
- Recurring theme in the debate is that all are affected, but discussions exclude a lot of countries, the crisis is being discussed at various levels.
 - G-20-8-77 etc, all are less than G192.
 - G20 is of systematic importance to the global economy, but the crisis affects the whole economy. There is a lack of trust that the G20 will take on board the views of all UN members. All countries have a right to give its opinion on a crisis that affects its economy. The GA is vested with jurisdiction to restore confidence and to address reform issues.
- There is creeping protectionism and a lack of trust between countries.
- Should we build a completely new architecture or reform existing institutions? We need to exercise political will to make these decisions. There is a saying that sometimes you cannot see the forest because of all the trees. If we do not come together at the UN the forest will burn down and there will be no trees to see...

Sudan (On behalf of G77 and China)

- We must address equity in the economic system as a critical element for finding any solution, a new pillar in the system must be erected.
- Equality of participation is central to any reform. The governance perspective must be based on global subsidiarity. Now market fundamentalists have the freedom to rave havoc. Deregulation is not a system of governance.
- Whatever is done, least developed countries must be at the centre of it, but most discussion here moves from that center. Bail outs are not directed to the least developed countries.
- IMF reform: need to adopt double majority on voting condition. Conditionality must be abolished. Nations must be granted policy space with reference to capital flows controls.
 - Restructure the IMF as a network of funds. 30 % of funds should be handled centrally, and the rest should be given to regions to decide over. Specialize in agriculture and infrastructure development.

Ecuador

- Aligns with the Rio group statement.
- G192 must, along with specialized agencies, be thinking and acting on this crisis, but not just in reforming the system, but to find alternative ways of organizing societies. The base of speculation and lack of transparency must be transformed. It is a question of ethics. We need alternative ways of contemplating this crisis.
- The foremost concerns of the Ecuadorian delegation:
 - The situation of migrant workers: immigration and employment, the rights of workers, the social implications and resurgence of xenophobic actions.
 - There has been a lack of mentioning of the environment in this dialogue. Sustainability must be a part of the response to the crisis. We should consider the green new deal.
 - Need regional input from regional organizations and initiatives. We would like to hear something from the panel on this.

RESPONSE from ECLAC to Ecuador:

- We could not agree more on regional inputs. Must recognize regional architecture as a complement to the international. A new international financial architecture needs to rethink the role of regional peers as this can be mutually reinforcing.

Pakistan

- Why is there not a representative from Wall Street on the panel, if this is where the crisis originated?
- We should remind ourselves that this is a Bretton Woods moment. But the first Bretton Woods moment was better than this one. Then, 44 countries participated. In 2009, we are talking about smaller configurations like the G20. The IMF report says that poor countries will be hit the hardest. Poor countries are not included in responses. They need to be heard.

Cuba

- Aligns with the statements of the G77 and the Rio group.
- Systemic aspects of the crisis:
 - We should not limit the response to financial aspects; we must get to the heart of the crisis. The neo-liberal globalization's failure is unquestionable. As is the false case that markets are self-correcting.
 - Financial speculation is not a result of conceptual errors. It was caused by greed and policies designed to increase wealth and avoid social responsibility. It only served big banks to support a model of production that was based on bubbles.
 - Banks wore out the real economy by praising the market. Central banks have been made silent or accomplices.
 - Current systems could not prevent or even predict this crisis. This proves the lack of legitimacy and need for reform.
 - The G20 has gained legitimacy by representing 80 % of economy. Eleven of the so-called emerging economies are represented within the G20 **but**

these are not representative of underdeveloped countries. Therefore nations of the South are not being given greater decision making power at the international level. We need a G192.

India

- Already during the 2005 Conference on development it was pointed out that liberalization of markets would lead to a crisis. The IMF and developed countries have built up the global imbalances. The logic of the system is to exploit people, so the crisis was foreseeable.
- We do not really have a financial architecture, unless sleeping in a ditch is considered the new form of architecture! The need for a new architecture was not heeded, because IMF and the World Bank are what they are. They must be brought under UN control. Unless we do that, we cannot do much about the situation.

International Trade Union Confederation (On behalf of the Doha NGO Group on Financing for Development)

- [As the representative started to speak, she was interrupted by the Ethiopian delegation, which, addressing the moderator, said that giving the priority of speaking to civil society was unacceptable. The delegation then left the conference room.]
- Countercyclical measures are extremely important as they are longer term than stimulus packages.
- Associates with the statement of ILO. Need a sustained focus on work.
- For fiscal stimulus packages, it is important to support small and medium enterprises and look at particularly vulnerable groups, such as women migrant workers.
- In overcoming the crisis we must:
 - Expand social protection, particularly unemployment schemes,
 - Support a green economy, and
 - Ensure distributive justice and people centered development.

Libya

- We have heard alarming things from the panelists. The efforts made after the second world war are in danger. This crisis could destabilize several countries.
- During the Conference in June, we must find solutions that are acceptable to all.
- In building the new architecture we must counter the savage markets. We need radical solutions so that all countries participate and we get the right policies. Exporters are exposed to several risks and those dependent on development assistance will suffer from reduced aid.

Chair: Those who could not speak due to time constraints will be given the opportunity to speak first in the afternoon.

AFTERNOON SESSION

PANEL

UNCTAD - Mr Ugo Panizza

- Mr Panizza discussed the recent report of UNCTAD on the crisis.
- Panizza pointed out that the crisis has proven that the idea that ‘developed countries are decoupled from the rest of the world’ is a myth.
- The mechanisms that lead to crises are always the same; an over-belief in some commodity or asset, which creates a bubble that eventually bursts. The problem is that people forget over time, and we start de-regulating again and come back to a new crisis. We must avoid this regulative cycle.
- Among the lessons for financial regulators were:
 - To focus on the right definition of financial efficiency, which is functional and social efficiency. This means that there has to be a positive social return, not only economic growth in itself.
 - Market failure must be addressed through regulation. Markets do not know best and regulators should second-guess markets.
- Among the lessons for developing countries were:
 - They should protect themselves, through accumulating reserves.
 - While developing the financial system the incentives to take risks increase and therefore the regulation must also increase. Develop gradually to avoid boom and bust cycles.

UNDP

- Human development perspective must be promoted, including a focus on MDGs.
- Poverty and unemployment are documented impacts, but other impacts are unknown; drop out rates, malnutrition and gender impact. It is urgent that we focus on this.
- What role is the UN playing in this crisis?
 - Global level: need for impact assessment and policy debates with an effective voice for all, in the G20 more than 140 countries are not represented. Need for a resource mobilization strategy, because the crisis is used as an excuse to remove resources for development.
 - Regional level: consultations and sharing experiences; sometimes regional work is not known on global and national levels.
 - Country level: this is the UNDP service delivery platform for social protection. Need for involvement beyond the UN of the private sector and civil society.
- Conclusion: Must deal with the short term, but do not focus away from the long term. Structural issues need to be addressed.

WORLD BANK – Mr Jeffrey Lewis

- The concerns of developing countries, both low income and emerging must be reflected.
- Channels of impact on developing countries
 - Volatility of commodity prices: countries that are reliant on exports might have cushions, but usually not enough.
 - Trade flows: cannot get trade finance even if already have buyers. This affects especially medium and small companies.
 - Financing in extreme slowdown: major source of external capital flows.
 - Remittances are declining: remittances usually considered a pro-poor inflow. Historically they have been countercyclical, but now the whole world is in crisis.
 - Official aid flows: no marked reduction yet, but debates in major donor countries indicate otherwise.
- Impacts on the poor and vulnerable:
 - We are hampered by lack of statistics and information, but unemployment is rising in export sector countries and sectors are disappearing. Malnutrition increase, hunger already from food crisis, 50 million people slipping back into poverty and infant deaths could increase by 400 000.
- Challenges in responding:
 - Shock stabilization, fiscal impacts and outflow of resources. There are now stimulus packages by all G20 countries, but for low income countries this is not possible because they do not have the resources.
 - Importance of protecting long term growth and development prospects. In the choice of policies and expenditures make sure to prevent deterioration.
 - Protect the vulnerable. Expand social safety nets. 94 countries anticipate substantial growth slow downs.
- World Bank response to the crisis:
 - International Bank for Reconstruction and Development: provides loans to middle income countries. We are going aggressively forward, 100 billion dollars of capital, but could run up to limit of available capital.
 - International Development Association: We have approval from the board to fast track the 42 billion intended for the next three years, in order to disburse it more rapidly as well as evenly as needs arise.
 - International Finance Corporation: private sector loans to jump start activity in the private sector.
 - Umbrella response: create a broad global vulnerability fund. Advanced countries would give 0.7% of their stimulus to this fund. This would protect the interest of poorest, through resources to agencies and also lending. This is not business as usual.

IMF – Mr Ranjit Teja

Analysis of causes and challenges:

- Caused by over-optimism, what were the causes?
 - Demand: interest rates were low in advanced countries with low inflation and monetary policy lax, while oil producing surplus economies

accumulated savings. Higher interest rates on investment gave strong growth and stable inflation, which led to optimistic risk assessments of investments. The financial industry offered to supply what people wanted, in the form of financial innovation.

- Supply: marketed as very safe securities but turned out not to be true.
- The original sins are mispricing of risk, over-optimism and providing products that were not what they seemed.
- The role of policy: Central banks saw their jobs as keeping inflation low, while not appreciating that the risk in the financial system was rising. Failure to see this combined with failure of financial regulation, flawed incentives and that all financial innovation was taking place outside the regulated system led to the crisis.
- International policy community and agencies, such as the IMF, also failed to warn about crisis, none of them issued forceful warnings. Information was lacking because it was taking place in a sector beyond formal regulation. Reports warned only in an abstract, scattered manner and did not say where risk concentrations were. There was not one authoritative voice.
 - IMF: we did not see this crisis coming sufficiently in advance, one year ago yes, but it should have been caught several years ago. We did make an effort to draw attention to global imbalances and the large surplus coming from Asia, but it did not attract strong policy action. Attention was focused on what would happen when this reverses, predicting that the dollar would collapse. But the analysis was wrong; we see a flight *to* the dollar instead of *away* from it.
- IMF current actions:
 - Push to expand fiscal stimulus, come to grips with problems in the financial system.
 - Bad assets that are causing problems. Need to acknowledge losses and then recapitalize banks.
 - Strong push for fundamental reform of regulation for insurance companies, banks, non-banks; the whole financial sector. Issues of compensation for excessive risk taking. Make better data available to see what risks are developing.
 - Emerging market countries and low-income countries: substantially increase IMF's resources, 250 billion lending capacity as of now. Hoping for at least double, perhaps triple. Nothing is as damaging as under funded programs.
 - The IMF recognizes that it needs to do a better job, on conditionality in particular. Therefore conducting root and branch reforms of facilities, which means doubled access for most countries.
 - IMF has introduced conditionality free loans for countries with already very strong economic structures.
 - Must recognize that there has been stigma attached to IMF programs and confront this in order to go forward.
 - Governance and quota reform: parallel to the Stiglitz report, the South African minister of Finance, Trevor Manuel, has prepared a

report on IMF that has just been released. The report investigates what would be a 'fair voice' and calls for the establishment of a high level council of finance ministers to make decisions on financial issues.

Chair (comment after IMF presentation)

"This represents a new direction of the IMF."

South Centre - Mr Martin Kohr

- **Expected political chaos in Africa.** There the recession means people go hungry instead of being 'only' unemployed; people die.
- **Finance** is hit in many ways: decline of bank loans. If loans cannot be rolled over we face a massive debt crisis of 3 trillion dollars. Sudden massive capital out flows, which is caused by the deregulation promoted by so many agencies.
- Stress on **real economy**: GNP, depreciation of currencies and fall in foreign exchange reserves.
- What is interesting and urgent for developing countries in the reform of international architecture and in countering a recession? **Priorities for South:** financial stability, enough stable and predictable financial resources, avoid financial and debt crisis, market access, long term recovery and development and maintaining policy space to implement policies that are necessary.
- Need to **review international trade institutions** to prevent new crises. Subsidies are a small part in comparison to the bail outs of industries in the developed world (car industry and textile industry)
 - Tariffs: use right to policy space according to WTO to raise tariffs in developing countries.
 - Assets of developing countries located in developed world must be protected. For example the Chinese claims in the US bail out must be honored.
 - Fiscal stimulus clauses: government procurement exempted which is mainly between rich countries. Climate action plans could also include protectionism.
- Need international measures to foster stability and avoid speculation affecting flows of capital. If no such international measures can be taken, national measures to regulate capital flows should be allowed. National capital controls and regulation are hindered by IMF policies to open markets and north-south trade agreements.
- IMF policy of extreme liberalization must be changed. The last nine loans given in this crisis have as contractionary policy conditions as they had previously. There is no change.
- Need a new coordinated, major fund to make up for the shortfall faced by developing countries of 700 billion dollars.
- Need new international system of debt restructuring to face the new round of external debt problems.
- Need a cooperation system to resolve the commodity problems.

- Need ECOSOC reform with a new executive council, to let UN play its proper leadership role in the international system.

QUESTIONS

Switzerland

- **Role of the UN:** capability of UN to respond depends on the commitment of donor countries.
- Responses to the crisis present an opportunity to advance other **reform agendas and the new green deal**. Business will go back to corporate social responsibility and environmental responsibility. The UN has a good track record in this field, with the Global Compact. Switzerland encourages the UN to vigorously pursue this path.
- Questions:
 - Environmental sustainability and climate change: what are the panelists' recommendations for green response and long term sustainability?
 - Toxic Assets: It is crucial to restore trust in the international financial system and free banks of bad assets. Which approaches are most promising so far and why?
- Hopes views expressed during these days will be considered during the G20 summit and encourages the Secretary General to communicate them.

Bangladesh

- Pointed out that the **crisis is different from previous crises**: there were new derivatives and financial products. Our interconnected world transmits high risks.
- **Regulation:** Washington consensus included a strong persuasion of deregulation and an individualistic perspective instead of a systemic one. Market failures were overlooked.
- Question on UNCTAD presentation:
 - What are the lessons for developed countries?
 - UNCTAD suggests that developing countries should accumulate more reserves, but the reserve system is being highly criticized. Is there not a contradiction in the recommendations?

Tanzania

- The international community should support developing countries in their policy measures and allocate immediate resources; otherwise, security will be threatened in many countries.
- Scholars have blamed part of the crisis on innovation of new financial instruments. Instead, innovations should be used for qualitative instruments. We should not stifle innovation completely.

Brazil

- On the "**Bretton Woods moment**": Short term measures are not sufficient. We need a major overhaul of the international financial architecture. There are a

number of processes on their way to address crisis including the G20, the UN Conference in June and the G8. These multiple initiatives can be complementary.

- What is the adequate role for the UN?
- Question on **“catch 22” for developing countries**: There is increasing political demand for counter cyclical policies, but developing countries lack resources for such policies. We agree that this is the primary responsibility of national governments but developing countries have little room for it and little access to international markets. There is a large external financing gap that international agencies do not have sufficient resources to address. How do we overcome this “catch 22” situation?

Venezuela

- The financial crisis has a **structural root**. With the increase in productive capacity of financial markets, the real economy lost importance and employment. There is capital, but it does not generate goods. Instead, the ecosystem is affected and poverty accelerated.
- **Institutions need to be restructured but not for more of the same**. This situation is the result of a predatory, productive and consumption planet. Neither humanity nor the planet can continue to support such a model. Many countries that found a way to overcome poverty contrary to the Bretton Woods Institutions’ methods are now forced to borrow. Leaders in rich countries are widely responsible for these effects and should ask for forgiveness.
 - Want to hear new proposals, with no more conditionality tied to aid and credit.
 - Capital flows between North and South have not benefited the South. The South promotes and pays for development in the North. A system must be set up in which capital flows are more just and equitable.

Indonesia

- We are too aware of the multi-faceted nature of crises. The majority of developing countries are faced with policy space constraint and limited capital. Their only option is to seek international assistance.
- The UN should focus on: provision of budget support through countercyclical measures, trade support and emergency finance for the private sector, social safety nets and country support through a coordinated UN response.
- Question: Is there a comprehensive stimulus package that would address the impact of the crisis in developing countries?

UN World Food Program

- The reality is that the food crisis is not over and is going to worsen. The poor are least protected from its impacts.
- The WFP depends totally on voluntary resource giving. There is a human cost to the crisis and the malnutrition of little children will have life long effects.

Women's Working Group on Financing for Development

- The UN has been a space open to women's issues and concerns, unlike the approach of the international financial institutions. A new global financial architecture must have new elements considered for women. The UN should take the lead in the reform process and assert genuine oversight rule over the Bretton Woods Institutions while fully integrating gender equality and women's rights.

Third World Network

- The **IMF's new loan facility**: Resources of IMF will be doubled up to tripled.
 - However, the IMF is still imposing contractionary and pro-cyclical policies in its **last nine loans**! The IMF is still advising to restrain public expenditure. For example in Pakistan the reduction of fiscal deficit meant a 4.2% lowering of public expenditure.
 - The IMF policies stand in stark contrast to policies in developed countries.
- Recommends the UN to emphasize that the IMF should not be lending in this way. The IMF should not be the only and dominant vehicle to provide economic assistance, regional and south-south initiatives should be supported on the international level.

Sudan (on behalf of G77 and China)

- On the IMF intervention
 - The IMF said that the international agencies had not issued forceful warnings because of lack of information. This summarizes the problem of the IMF, which is market fundamentalism and agency self promotion. The key recommendation of the 1995 Halifax Summit was sharper IMF surveillance. If the IMF would have implemented the reform with regard to information, it would have averted crisis. But of course it would not tell the emperor that he is not wearing clothes.
 - **The new loan facility** is only for countries with strong policy frameworks. This is simply **conditionality interpreted in a different way**. There should be total abolition of conditionality and the only conditions to loans should be maturity and payment rules that apply to any borrower.

Czech Republic (on behalf of the EU)

- Thanked the UN agencies for their contributions. Underlined the achievement of the Millennium Development Goals and reaffirmed its development assistance commitments.

Colombia

- Underscored the defense of free trade. Protectionist policies are particularly relevant and should be exposed in investment and international migration as well as trade. They would like to follow-up on UNDP the impact of the crisis on human development, especially on meeting the Millennium Development Goals and eradicating poverty.
- There are serious impacts on countries that are dependent on exports. What development strategy is advisable for them? (For Mr. Lewis, World Bank)

- In recent months, studies have been conducted on the effects on development, notwithstanding the impact of actions that are being taken in response to the crisis. The scope of these impacts is still not clear. We would like further information on possible impacts on emerging markets with regard to stimulus packages and bailout proposals.

Kazakhstan

- There is a need for a drastic renovation of the existing world currency system. A supra-national world currency should be introduced within the UN system, and secured by all states.

Nicaragua

- Aligns with the statements of the Rio Group and the G77.
- Surprised to hear the IMF say the crisis was as a result of excessive optimism. The **origin of the crisis** is not reflected in the actions of the financial sector, but rather in the **unsustainable consumer model** of developed countries. This consumer model is imposed on us, because developed countries are still attempting to maintain their hegemony. The G20 does not represent the vast majority of developing countries. It is ironic that those countries that had the benefit of democracy are exercising economic domination of a few over many.
- The **response given to developing countries** is that they are not able to be present at meetings. Also assistance will primarily be given to countries that can pay back. There is no debt relief for heavily indebted countries even for emergency aid.
- The **role of the UN**: DESA said that DESA and UNCTAD foresaw the crisis and sounded the alarm. The IMF and the World Bank could not forecast the crisis, according to IMF because of a lack of information. The UN is the only body capable of delivering a truly democratic process and legitimacy.

Malaysia

- The cause of the crisis was a disconnection between the financial system and the real economy. To prevent it from reoccurring we need regulation to ensure that the gap is not as large as before. However, we are quick to forget and the world is governed by markets, so there is not much room for optimism.
 - Question: When should we impose strict regulations? Now while we have not forgotten the hard times?
- Who is responsible? There is not moral equivalence. The burden of blame must go to Wall Street.
- **A Green New Deal** is good, but do the conditions really exist for it? **There is no international regime that permits transferring of technology** that is needed to accomplish a green new deal. It is more likely that developed countries attempt to green their economies and **use protectionist measures in the name of a green new deal.**

Pakistan

- Agrees that over-optimism was a factor in causing the crisis.

- Commented that the influx of resources into the US is due to a lack of options, not because of trust in the US economy.

El Salvador

- Some of the **hardest felt problems in El Salvador** are declining family remittances, reduction of demand and new obstacles to credit.
- There is a need for global solutions, but also regional and **sub-regional solutions**. For us the focus is on sub-regional solutions, which are especially important to restore confidence.
- Supports the **UNDP approach** not to set aside human development and not only focus on economic solutions.
- **Comprehensive solutions are needed**. Those must include climate change and a sustainable approach for human development, otherwise solutions might counteract these goals.

Republic of Korea

- **The impact of the crisis on development**: the foremost responsibility of the UN is to ensure that the crisis does not lead to a full front humanitarian disaster. Need measures to mitigate impact and ensure that the Millennium Development Goals are met.
- Question: What do the IMF and the World Bank think about mainstreaming a green deal into development strategy?
- **Protectionism**: there are new barriers to trade and investment. After standstill according to the G20 last year, there is now resort to protectionist actions.

Holy See

- Extremely concerned about the vulnerability of poorest countries in weathering this crisis. There is a need for trust and solidarity in international finance. Low income countries are marginalized in trade and dependent on export. The fundamental issue of global equity remains. All should be given equal access to markets. Need for a long term perspective of the common good and ethical principles. Ethics are not external to our economic system, but internal to it.

RESPONSES TO QUESTIONS

UN Conference on Trade And Development (UNCTAD)

- On question by Bangladesh on **lessons for developed countries**: the first recommendations are for developed countries, including that regulation must focus on social efficiency, that market based deregulation is not enough, the need to adjust incentives in the financial system and implement wider regulation and regulatory arbitrage.
- On question by Bangladesh on **accumulation of reserves by developing countries**: It is really only the second or third best strategy. The first is a global or regional insurer, but if that does not exist, the developing countries have to insure themselves.

- On question from Malaysia on **when to implement regulation**: In a perfect world we should do it when the world is calmer because it would mean more time to carefully consider the regulation. But in reality there will be no political will in two to three years, therefore we should do it now.

World Bank – Jeffrey Lewis

- The more cooperation the better for the global economy and faster recovery.
- On the **Green New Deal**: Shares the Malaysian skepticism that it is hard to kill two birds with one stone, but we should recognize that we have two different problems. We must at least apply the ‘do no harm principle’ to the other problem.
- On **protectionism**: The G20 members have failed. Protectionism can emerge in many different ways; for example ‘buy America’ and reintroducing quality standards qualify as protectionism.
- On questions on that the World Bank is **not focusing sufficiently on inequality**:
 - Focus is on the low income countries that are the worst affected, have the fewest means to respond and has no voice (only in the UN).
 - Most interventions in the short term to ramp up resource flows focus on social safety nets. However, the World Bank does not have enough resources and are working with the UN, since the G20 does not represent developing countries.
- **On lessons going forward for commodity dependent countries**: must reconsider the received wisdom of how much countries should engage and open up their markets. **This does not mean reversal of these policies, but consideration of the timing and pace of engagement.**

UN Development Program (UNDP)

- On the **Green New Deal**: There are strong linkages between poverty and climate change! Seek win-win situations and need to study the scope of green jobs, including within stimulus packages.
- Collaboration at global and country level: working with UN country team and World Bank and the IMF on impact assessment, looking at social expenditures and Poverty Social Impact Analysis, and will continue this support.

International Monetary Fund (IMF)

- On the comment by Malaysia on **moral equivalence**: Agree that there is definitely not moral equivalence. The financial sector gets the “top billing in that respect”.
- On comment by the Third World Network that the IMF should not be the only financier in this. There is a role for regional and other initiatives, particularly for the EU and the World Bank.
- On the comment by Sudan on **conditionality**: “You are right” that it has been eliminated in a qualitative way. As a financial organization, the IMF considers that there is a legitimate role for conditionality, but it should be more streamlined and respectful of political constraints. Conditionality needs to be reworked and it is, but it is not being eliminated.

- **On IMF governance:** The quota system is not a true reflection of the world. But this question is in the political domain and progress has been slower than we would like to see. Agrees that a fair voice and representation is central to legitimacy. Selecting management is in mix of reforms to be addressed.
- **On the comments on recent contractionary policies by the South Centre and the Third World Network:** Many countries that have borrowed recently had troubles that began with fiscal problems. That reality cannot be ignored. However, we have to find ways to promote social spending. The fiscal targets will have to be adjusted as situations turn worse. One country came to the board today and had its fiscal target relaxed.

South Center – Martin Kohr

- Many countries in the G20 think that the solution is a dramatic increase of resources of IMF, but it is very **doubtful if the IMF has learned the right lessons**. However, many countries do not have any choice but to go to the IMF.
- **The reform of IMF is very important and must be done before augmenting the resources to the IMF:**
 - The IMF has made mistakes in its policy conditions, for example the promotion of **free flows of funds into and out of countries**, which has led to the transmission of the crisis. This must be thoroughly reformed.
 - The IMF should not deal with issues such as **trade policies**, which it does not have a mandate for. Subsidies in Europe and the US continue but Africa is forced by the IMF to abolish its subsidies.
 - It is a **wrong policy of the IMF to accept a 100 billion dollar loan from Japan**, because it creates a conflict of interest in the surveillance work of the IMF. How can you discipline someone who has lent you 100 billion? The IMF should borrow from the market and issue Special Drawing Rights instead.
 - An **international currency should be established**, not dollars. It could be Special Drawing Rights.
- IMF is asking the wrong questions, that is why it gets policies wrong and fails to predict what will happen. A couple of months before Iceland collapsed, IMF said that ‘Iceland’s conditions were enviable’.

Compiled by: Cecilia Gadd, Nicola McIvor and Hilja Gebest (March 2009)