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FfD Update - Taking the political temperature

The UN Millennium Assembly in 2000 and the UN-sponsored conference on "Financing for Development" (FfD) in Monterrey, March 2002, have contributed to put global development policy back on the international political agenda. By defining common priorities and timelines, the Millennium Development Goals (MDGs) provide leverages to put pressure on governments and international economic institutions to coordinate their policies. It is not the first time in history that development goals have been established by the international community. What is new this time, however, is that the governance aspects of cooperation for development are thoroughly part of the debate which extents beyond a narrow focus on official aid policy to include all international economic activities that imply or effect financial flows. Whether external trade, export subsidies, investment regulations or debt relief, all financial flows and their governance structures are presently attentively screened against their impact on reaching the MDGs. This extension of focus makes the follow-up process to Monterrey (FfD process) potentially a part of the larger debate around a New International Financial Architecture.

It is, however, important to qualify the relative contribution that the FfD process can make, bearing moreover in mind that UN-led processes are to a large extent contingent to processes of opinion building in other fora:

- though recent financial crises and continuous financial instability are clearly relating to an overexposure of national development policies to external financing and integration of financial markets, key questions such as "how much external finance does development really need?" or "how should an international policy environment conductive to increasing domestic savings look like?" have not been raised in the FfD process;

- during the entire FfD process, issues of financial architecture interlinking with development finance have been constantly downgraded through political pressure by the USA and other industrialized states; what has been left in the Monterrey Consensus has largely been made "coherent" with the neo-liberal agendas of the BWIs and the WTO;

- the reach of the debate on systemic issues in the FfD process is part of a fluid trade-off determined by the interests of ad-hoc political alliances. At the heart of this trade-off is that the global south subscribes domestically to a marked-led approach to development, while the global north engages in reforming for an "enabling international environment".

<u>FfD framework and new international financial architecture: elements of discussion</u>

The text of the Monterrey Consensus delineates the areas in which follow-up activity is mandated or envisioned by the international community, without that this implies necessarily that further elaboration is taking place actually. While elements of international financial architecture are touched upon throughout the text, we will concentrate here on the dimensions which are more pertinent to the actual discussion on architecture, as they evolved in the run-up to the Monterrey Conference and are being discussed in the FfD follow-up process.

Orderly debt workout mechanisms

> §51: ".... we emphasize the importance of putting in place a set of clear principles for fair burden-sharing between public and private sectors and between debtors, creditors and investors. ... We also encourage exploring innovative mechanisms to comprehensively address debt problems of developing countries, including middle-income countries ..."

> §60: "To promote fair burden-sharing and minimize moral hazard, we would welcome consideration by all relevant stakeholders of an international debt workout mechanism, in the appropirate forums, that will engage debtors and creditors to come together to restructure unsustainable debt in a timely and efficient manner. ..."

A much stronger wording, including debt standstill and voluntary arbitration, had been ventured since the first draft of the Monterrey declaration, tabled in September 2001, and the discussion has also been strongly influenced by the SDRM proposal of the IMF (Sovereign Debt Restructuring Mechanism). Wording in regard was eventually opposed by the US, facilitated by a lack of engagement by the Group of 77/China. However the mandate of the Monterrey Consensus harbours hopes, following the dropping of the SDRM proposal by the IMF in April 2003 due to US resistence, that the FfD process could uphold the discussion.

The draft resolution by the Chair of the FfD follow-up session during the UN-GA of 2003 explicitely requested

> "... the Departement of Economic and Social Affairs, in collaboration with the UN Commission on International Trade Law, to develop, through an informal process, within the Monterrey modalities, a comprehensive, coherent and fair debt workout mechanism to address debt and its development dimensions for consideration by the GA at its 59th session." (A/C.2/58/L.39, §3, 11 Nov 2003).

The draft resolution was eventually opposed by the US-administration, and the adopted resolution talks only in general terms about the possibility of the FfD Secretariat to call in workshops on issues related to the mobilization of resources and poverty eradication (A/C.2/58/L.83, §13 a, 15 Dec 2003). However, the draft resolution had gathered ample support among developing countries, and NGOs are continuing their advocacy work to establish a debt working group in the present framework.

International tax cooperation

> §64: "To strengthen the effectiveness of the global economic system's support for development, we encourage the following actions: ..... Strenghten international tax cooperation, 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..."

The issue has stirred much debate following the UN-SG mandated report of former Mexican President Zedillo (Summer 2001), which had strongly called on the FfD to establish an International Tax Organization (ITO), thus deliberately trespassing the tacit agreement imposed by the industrialized countries that FfD should not lead to the creation of new institutions. But already the first draft of the Monterrey declaration of september 2001 toned the proposal down, asking merely to "explore the potential benefits and optimal design of an international tax organisation". The final text of the Monterrey Consensus does not go beyond existing frameworks and avoids altogether reference to the idea of an ITO, notwithstanding some opening of the US administration in the wake of the terrorist attacks. Reacting to the latter, the Consensus calls for negotiating a UN Convention against corruption, including the repatriation of illicitely acquired funds, and cooperation to eliminate money laundering.

G-77 countries have admitted that they have missed the opportunity to press for an ITO during the negotiations for the Monterrey Consensus, and are now trying to recuperate the issue in the FfD follow-up process. The draft resolution by the Chair of the FfD follow-up session during the UN-GA of 2003 suggested

> "… to convert the UN Ad Hoc Group of Experts on International Cooperation in Tax Matters into an intergovernmental subsidiary body of the Economic and Social Council" (A/C.2/58/L.39, §6, 11 Nov 2003)

in this way avoiding the naming of an ITO, while attempting to achieve the first step for its realization, namely to convert the Ad Hoc Group into an intergovernmental body. However, in the meantime the US-administration has achieved its goal with the recently stipulated UN Convention against Corruption, which reduces the little leeway it had offered for the debate. Indeed the finally adopted declaration of the UN follow-up session to FfD in December 2003 falls quite short of the draft, reading:

> "Requests the Economic and Social Council, in its examination of the report of the Ad Hoc Group of Experts on International Cooperation in Tax Matters at its next substantive session to give consideration to the institutional framework for international cooperation in tax matters." (A/C.2/58/L.83, §10, 15 Dec 2003)

Giving the Ad Hoc Group of Experts a lead role in proposing institutional frameworks does not bode well for paving the way towards an ITO, though it offers a continuous entry to NGOs for further discussions and advocacy opportunities, especially since the G-77 have clearly expressed their strong interest in the matter.

Commodity price guarantee mechanisms

> §37: "Multilateral assistance is also needed to mitigate the consequences of depressed export revenues of countries that still depend heavily on commodity exports. Thus, we recognize the recent review of the IMF Compensatory Financing Facility and will continue to assess its effectiveness. It is also important to empower developing country commodity producers to insure themselves against risk, including against natural desasters."

While the Monterrey Consensus puts the task squareley back to the producer countries, the first draft of Monterrey declaration in September 2001 – taking up the recommendations of the Zedillo Report – had gone much further, making it the responsability of the multilateral institutions to stabilize the export revenue of developing countries by establishing appropriate multilateral commodity risk management mechanisms and ensuring access to insurance against natural desasters, and calling on the IMF to restore and improve the Compensatory Financing Facility.

With the sharply declining terms of trade in recent years, the issue has regained prominence in the FfD follow-up process. In his key note address to the FfD Session at the last GA, UN-SG Kofi Annan made a link between the depression of commodity prices and the growing negative net transfer of finance from the south to the north, amounting to almost 200 Mrd USD in 2002, making this data the headline of reporting from the GA for an entire week. Moreover, studies showing that more than half of capital inflow entering sub-saharan Africa have to make up for commodity price losses had a strong impact on discussions. However, the expressed will of the majority of developing countries to task UNCTAD with making a concrete proposal to the next GA on an appropriate mechanism to address price fluctuations of commodities has been rejected by the US, tacitly supported by EU member states. The final declaration of the FfD Session during the 2003 GA contains just a non-binding address to UNCTAD to continue discussions. With this result, it seems likely that the discussions will shift away from the FfD process towards the UNCTAD XI conference scheduled for June 2004.

Participation of developing countries in global economic decision making / BWIs

> § 62: "We stress the need to broaden and strengthen the participation of developing countries … in international economic decision-making and norm setting. To those ends, we also welcome further actions to help developing countries … to build their capacity to participate effectively in multilateral forums."

While industrialized countries were quick to translate this mandate of Monterrey into merely an issue of technical assistance for developing country representatives in the IMF and the Worldbank, the debate has taken on a highly political profile, with the G-24 pushing hard for a revision of the present voting shares and the structure of representation in the Boards of the Bretton Woods Institutions. The issue figured prominently in the first High Level Dialogue meeting between UN-Ecosoc and the BWIs in April 2003 and will be reconsidered during the next of these meetings in April 2004. A tentative by the US Director in the Worldbank Board in summer 2003 to close the debate was unsuccessful, as also industrialized countries are forced to admit that the present structure grossly fails to reflect changed realities of economic power and international economic relations. With the US squarely against an increase in base votes or a stocking-up of capital shares of developing countries in the BWIs and reluctant to increase the number of seats on the Boards of the twin sisters, the political pressure falls on the EU member states which are grossly over-represented in their voting power and representation. At the same time, the EU members need to reflect changes due to the enlargement of the Union and the fall-out of the EU Convention process which issues a strong call for a Europe speaking with a single voice in global affairs. This political constellation is promising reform, and the FfD context has gained an important role in channelling the discussions.

The draft resolution by the Chair of the FfD follow-up session during the UN-GA of 2003 stressed the need for "…early decisions before the next High-Level Dialogue on enhancing the voice and participation of developing countries in the work and decision-making processes of the intergovernmental bodies of the Bretton Woods Institutions" (A/C.2/58/L.39, §4, 11 Nov 2003). The finally adopted resolution reflects the resistance of the US and the EU member states to pressure and timelines set by the UN, but calls on the BWIs to "strengthen actions aimed at reaching decisions" (A/C.2/58/L.83, §6, 15 Dec 2003).

Innovative financing mechanisms / liquidity

> § 44: "We recognize the value of exploring innovative sources of finance provided that those sources do not unduly burden developing countries. In that regard, we agree to study … the results of the analysis requested from the Secretary General on possible innovative sources of finance, noting the proposal to use special drawing rights allocations for development purposes. …"

> § 59: "… we underline the need to ensure that the international financial institutions … have a suitable array of financial facilities and resources to respond in a timely and appropriate way [to financial crisis and risk of contagion]. … The need for special drawing rights

> allocations should be kept under review. In that regard, we also underline the need to enhance the stabilizing role of regional and subregional reserve funds …"

The discussion on innovative financing mechanisms for development was particularly lively in the early stages of the FfD process, considering a range of options including currency transaction taxes, the taxation of carbon emissions and global lotteries. It dried out when the requested analysis from the UN Secretary General was put on hold, apparently for political reasons to not further complicate the Monterrey negotiation process. The study was eventually published after Monterrey and did not find political attention. This contributed to a lack of focus during the negotiations, while at the same time it limited the attention on the debate of IMF special drawing rights which the G-24 tried to persue. In the end, Monterrey completely failed to address the issue of innovative financing mechanisms or additional resources through traditional means. The failure figured so embarrassingly against the financing needs of the MDGs that the EU, and later the USA, decided to unilaterally increase their ODA levels.

The draft resolution by the Chair of the FfD follow-up session during the UN-GA of 2003 unconvincingly tried to recuperate this important original dimension of the FfD process by recalling the UN commisioned study and supporting the British proposal to set up an International Financing Facility (A/C.2/58/L.39, §1, 11 Nov 2003). Both demands failed to make it into the final resolution, showing that the focus of the FfD process has shifted far away from direct funding concerns to more structural questions of development financing.

Symmetric surveillance and crises prevention

> § 55: "The multilateral financial institutions, in particular the IMF, need to continue to give high priority to the identification and prevention of potential crises and to strengthen the underpinnings of the international financial stability. In that regard, we stress the need for the Fund to further strengthen its surveillance activities of all economies, with particular attention to short-term capital flows and their impact. …"

Quite intensely debated in the beginning of the FfD process, due particularly to G-24 pressure to monitor the exchange rate volatility between the major world currencies, the debate dried out with the rejection of an Asian Monetary Fund and increased IMF activity on surveillance in other forums in which G-24 members participate. Since the low dollar costs presently eases tensions, it is not to expect that the FfD process regains on this issue for the time being.

Global economic policy coherence

> § 52: "In order to complement national development efforts, we recognize the urgent need to enhance coherence, governance, and consistency of the international monetary, financial and trading systems. To contribute to that end, we underline the importance of continuing to improve global economic governance and to strengthen the United Nations leadership role in promoting development."

While the issue of policy coherence among the global economic institutions remains high on the agenda of the FfD process, its particular entry point for activity – that is, to strengthen a UN coordinating function – remains contingent to the constraints of the UN to fulfill this task, starting with the institutional set-up of the FfD follow-up process, as described below. For the industrialized countries, the demand remains exclusively addressed to the IMF and the World Bank which endorse the Monterrey Consensus and are fully integrated in the FfD process. Developing countries formulate particular coherence concerns in the FfD framework, such as the relation between trade, debt and financial policies, but fail to address the more systemic question of how to restructure relations among the UN specialized agencies, including Fund and Bank, in order to increase policy coherence for development purposes. It is not to expect that the FfD process in foreseeable future will gain a specific role in the ongoing debate.

FfD follow-up mechanisms: fit for the tasks?

Whether the FfD process must be regarded an important venue in the discussions on a new global financial architecture is not only a question of its particular contents but of its institutional structure and participants. Can it muster the task of consensus-building in the international community? Is it enabled to fill with live the mandate which the UN received in Monterrey with regard to the coordination of global economic decision-making and the monitoring of its coherence?

In Monterrey, governments decided in favour of a continuous follow-up process which puts the UN into an ongoing discussion with the Bretton Woods Institutions and gives a deliberating role to the UN General Assembly. While envisioning the possibility of major review conferences, the emphasis clearly lies on creating a framework for shaping discussions rather than on periodically checking the implementation of decisions. Compared to UNCED and other global UN forums, the model is innovative. NGOs and other non governmental stakeholders participate throughout the process.

Institutionally, Monterrey gives a key role to the Economic and Social Council of the UN (Ecosoc) which is tasked to hold an annual one-day High Level Dialogue meeting with the BWIs and the WTO. Every other year, a special segment of the UN General Assembly is dedicated to the FfD process, including a one-day High Level Dialogue meeting with the BWIs and resulting in a resolution of the 2. Committee of the UN-GA. This dialogue structure is supplemented by an annual report of the UN Secretary General on the implementation of the Monterrey commitments.

In practice, this model relies heavily on preparatory work for the shaping and focussing of the 1-2 days of annual dialogue between the UN and the BWIs, which, moreover, would need to capture inter-governmental fault lines and consensus issues ahead of time, if dialogue should sensibly lead to relevance in consensus building and, probably, decision-making. However, the UN-Ecosoc structure is not equipped to perform this task, and the small FfD Secretariat situated in the Department for Economic and Social Affairs (DESA) lacks the capacity and the inter-governmental legitimacy to fill the gaps. Means and goals are not matching, leading to a situation in which the dialogue structure contemplated in Monterrey becomes meaningless before it really started.

Unsurprisingly, this issue has become the major topic of political conflict during the first regular FfD debate in the UN-GA after Monterrey in the fall of 2003. Many developing countries were outspoken in demanding the set-up of an inter-governmental body within the UN-Ecosoc to act as a lead agency in the preparation of the yearly dialogue meetings. Their proposal to create an Executive Committee in Ecosoc on FfD, which was included in the draft resolution to the 2. Committee of the UN-GA, would have been immediately effective, making already the agenda discussion between the BWIs and the UN for the spring dialogue meetings 2004 an inter-governmental affair. It would have created a first element of an external governance structure for the BWIs which many NGOs are keen to establish in order to foster BWI accountability to the UN.

Equally unsurprising was the outright rejection of the US and other industrialized countries to accept an inter-governmental footing of the relations between the UN and the BWIs. Quite cleverly, they put the emphasis on the strengthening of the capacity of the FfD Secretariat in DESA and, by offering a welcomed increased financial support for this secretariat, evaded the underlying institutional question.

In sum, the UN seems presently not adapted to further refine and shape what the dialogue structure of the FfD process and other forums might create in terms of political momentum for a reform of the global financial architecture. It has hardly any effective mechanism to foster consensus building or for making input rife for decisions, let alone for implementing decisions. The US Administration and to a lesser extent the EU members do all they can to keep FfD follow-up mechanisms institutionally weak and non-binding for the Bretton Woods Institutions.

Measuring the political temperature: which temperature?

As a multilateral process that started in 1998 in the wake of the Asian financial crises and requests to bolster the capacity of crisis prevention of the existing institutions, the FfD process has always been a mirror of the status of international cooperation rather than its designer. This is particularly true since the shift of the US-administration's stance on multilateralism after the terrorist attacks of 11 september 2001. With multilateralism crippled for the time being, the discussion on economic global governance and reform needs have squarely shifted back to the elusive G-groups and forums dominated by the industrial powers, which FfD was once supposed to contain and integrate in more accountable structures.

The proceedings of the first FfD follow-up session at the UN-GA level in 2003 seem to indicate that the countries excluded from these forums attempt to put issues on the agenda which are processed in other forums with a degree of controversy among the industrialized powers, in first instance the US and the EU. In this sense, discussions at the UN last fall focussed on a few items, namely

- debt workout mechanisms: in the wake of the strong transatlantic divergence on the SDRM proposal, the potential opening of the Paris Club for new criteria on debt sustainability (Evian Approach), and the evaluation of HIPC and future debt reduction intiatives;
- participation in BWI decision making: in the wake of US tollerated pressure on the EU member states regarding its overrepresentation;
- commodity pricing issues: in the wake of the failure of the WTO Ministerial in Cancun and transatlantic divergencies on how to rescue the Doha Development Round;
- additional resources for development: in the wake of the British initiative at the G-7 to set up an International Financing Facility to front load aid disbursement for the achievement of the MDGs.

Additionally, the issue of tax cooperation figured high on the agenda, due to the particular interest of the G-77/China in this matter.

The results of the UN-GA session on FfD do, however, not confirm the idea that FfD might play a role in shifting political balances which are developing outside its reach. The Draft Resolution by the conference chair of S. Lucia was immediately rejected by the US, which tabled a counter resolution characterized by the attempt to completely annihilate any political meaning of the session and the FfD process as such. The EU member states remained silent, showing through this passive support of the US that they do not regard the FfD process the appropriate forum to intervene in transatlantic divergences regarding global economic issues, at least for the time being.

What is interesting, however, is that the final resolution of the FfD session contains some language on international tax cooperation, indicating an opening towards the position of the G77/China which had concentrated its efforts on this issue. This also shows that a stronger engagement of the G77/China in the FfD process could alter its importance. The ambivalence of the G77 towards FfD which has accompanied the whole process or, alternatively, the build up of issue related ad-hoc alliances among some its members – as witnessed in the frame of the WTO - may be seen as the single most constraining factor for the political value of FfD.

If the FfD process is an appropriate measure of the political temperature of advancing to a new international financial architecture, then the result is quite disappointing. Either there is nothing in the making, or whatever is in the making among industrialized countries is not being posted to FfD for global consensus building. It is difficult to say which of these options must be considered worse.

NGO positioning and activity

While this all may sound quite negative, we should hasten to carve out the positive aspects which makes it worth to continue engaging in the FfD process: it offers a space for ventilating new ideas in a relatively safe environment, especially at times with harsh conflicts in the international community. It has its share in upholding the politicization of the development issue, which is maybe the most important asset which the Millennium declaration and the Monterrey conference have achieved. We are well advised to preserve this space and make best use of it. It may become an important political venue in the moment in which multilateralism is being reconsidered by the major players, and, at present, there is no other place where possible consensus-building could have the required legitimacy.

With this in mind, an international network of NGOs and social movements engaged in social justice activity continues to monitor the process and to participate in the dialogue events. Some 70 organizations intervened in the controversies around the draft resolutions of the UN-GA last fall with an open letter to all UN delegations. The letter contained two substantial requests, positioning the NGO community alongside the demand of developing countries to upgrade the FfD follow-up to the inter-governmental level of the UN-Ecosoc, and to set a timeframe for increasing the participation of developing countries in the decision making of the BWIs. Moreover, the letter demands to further explore ways to stabilize commodity prices and to set up working groups on debt and the coherence between trade, debt and financial policies.

While the issue of up-grading the FfD process has been lost for the time being, all other demands are addressed at the final resolution – though with different emphasis. In particular, NGOs will press for the establishment of working groups on commodity prices, debt, and coherence between trade and financial policy. They will also step up advocacy around the High Level Dialogue meeting between the UN-Ecosoc and the BWIs in sping 2004 to advance solutions with regard to the issue of voting shares and representation of developing countries in the Boards of the BWIs.