Forthcoming as the Introduction to
Joachim Mueller and Karl P. Sauvant (eds.),
Annual Review of United Nations Affairs 2009/2010,
New York, Oxford University Press, 2010.

THE UNITED NATIONS AND GLOBAL FINANCE

José Antonio Ocampo[*]

1. Introduction

In the concluding volume of the United Nations (UN) Intellectual History, its three coordinators (Richard Jolly, Louis Emmerij and Thomas G. Weiss) open the chapter on "Fairer International Economic Relations" with this statement: "The UN was far ahead of the curve around 1950 in conceiving a system of international economic relations that would serve all countries of the world well".[1] This statement can be equally applied to other periods in the history of the United Nations. It was also "ahead of the curve" when the United Nations Conference on Trade and Development (UNCTAD) was created in 1964, and when the negotiations on a New International Economic Order (NIEO) were launched in 1974. The contributions of different parts of the UN Secretariat – UNCTAD,[2] the different parts of what today is the Department of Economic and Social Affairs

---

[*] Professor of Professional Practice and Director of the Program in Economic and Political and Economic Development Program at the School of International and Public Affairs and Fellow of the Committee on Global Thought, Columbia University. Former Under-Secretary-General of the United Nations for Economic and Social Affairs, Executive Secretary of the United Nations Economic Commission for Latin America and the Caribbean, and Minister of Finance of Colombia. In 2009, the author was also a member of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System. I am grateful to my former UN colleagues Yilmaz Akyüz, Barry Herman, Oscar de Rojas, Alex Trepelkov and Rob Vos for their own inputs and views, which have been instrumental to drafting parts of this essay.

[1] Richard Jolly, Louis Emmerij and Thomas G. Weiss, *UN Ideas that Changed the World* (Bloomington and Indianapolis: Indiana University Press, 2009), p. 99.

[2] UNCTAD is formally a Program, but its financing and structure is very similar to that UN Secretariat, and it services as the secretariat for some UN intergovernmental processes. For that reason, I will refer to it as part of the UN Secretariat.

(DESA) and the Economic Commission for Latin America and the Caribbean (ECLAC), in particular — as well of intergovernmental debates and consensus-building in the areas of trade, finance, debt, foreign direct investment and transnational corporations, is indeed one of the remarkable historical achievements of the UN.[3] This is also true of official development and humanitarian assistance, where, however, UN achievements are more readily recognized.

I argue here that this is also true of the UN in the area of global finance and the debate on the international financial architecture over the past two decades. The different parts of the UN Secretariat have been well "ahead of the curve" in analyzing the effect of financial volatility on global economic stability and developing countries in particular (which are meant to also include what are now called the emerging market economies), and suggesting major reforms of the international financial architecture. The two reports on these issues prepared by Commissions of Experts convened by the UN, under the leadership of former Mexican President Ernesto Zedillo and Nobel Economic Prize winner Joseph Stiglitz (the Zedillo and Stiglitz Commissions, in short) are also remarkable in this regard.[4]

Equally, and perhaps more importantly, the UN became again a forum for global *economic* issues with the March 2002 International Conference on Financing for Development, held in Monterrey, Mexico. The UN had been essentially sidetracked after

---

[3] This story has been very well told in the special volume prepared for the UN Intellectual History Project by John Toye and Richard Toye, *The UN and Global Political Economy* (Bloomington and Indianapolis: Indiana University Press, 2004).

[4] See *Report of the High-level Panel on Financing for Development*, 2001, www.un.org/reports/financing, and *Report of the Commission of Experts of the President of the United Nations General Assembly on Reforms of the International Monetary and Financial System*, September 21, 2009, http://www.un.org/ga/econcrisissummit/docs/FinalReport_CoE.pdf

the failure of the negotiations on a NIEO in the early 1980s, and the rise of the market fundamentalist economic agenda.[5] Such issues largely became then the exclusive domain of the Bretton Woods Institutions (BWIs), which dealt with them with a strong orthodox zeal.

The Monterrey Conference was convened by the UN, with support of the BWIs and the World Trade Organization (WTO). It led to the approval of the most ambitious reform agenda on global finance so far agreed at the intergovernmental level: the Monterrey Consensus.[6] The follow-up Conference held in Doha at the end of 2008, called, in turn, for a Conference on the World Financial and Economic Crisis and Its Impact on Development. This Conference, held in New York in June 2009, approved the broadest agenda on responses to the ongoing world economic crisis, endorsing in several areas the recommendations of the Stiglitz Commission.[7]

Some aspects of the global political economy are crucial to understand both the capacity of the UN, through the intergovernmental process, the Secretariat and the convening of Commissions of Experts — i.e., through the "Three UNs", to follow the terminology of Jolly, Emmerij and Weiss — to offer more ambitious analyses and agendas, but also its limitation. The crucial issue is the representation and associated governance of the UN vs. the BWIs. The weight that developing countries have in the UN is, no doubt, the determinant factor in this regard. Indeed, it is quite likely that economic issues would had been withdrawn from the UN agenda altogether during the

[5] It is can also be called the "neo-conservative" agenda. The term "neo-liberal" is also widely used, but this denomination is probably inappropriate, given the different meanings of the concept of "liberal" in different contexts (e.g., in the U.S. vs. Continental Europe).
[6] The Monterrey Consensus can be found in: http://www.un.org/esa/ffd/
[7] http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/63/303&Lang=E

1980s and 1990s had it not been for the developing countries, which appreciate the alternative views on world economic issues expressed by the UN Secretariat and highly value the more open fora that the UN intergovernmental processes provide, where they can place on the agenda more ambitious reforms than those suggested by the industrial countries and can voice their disappointments with the views of the BWIs. The UN has also a more structured interaction with civil society, which therefore has a stronger voice in the UN, not only through experts (such as the Zedillo and Stiglitz Commissions) but also through a vast array of civil society organization that regularly participate in UN debates.

The stronger voice of both developing countries and civil society is, in turn, a fundamental reason for the relative independence of different parts of the UN Secretariat from the economic views that dominate economic thinking in the industrial countries. It also explains why, with much more limited human and economic resources – indeed, reduced resources, as the UN Secretariat was forced in to shrink in the 1990s, while the BWIs and, particularly, the World Bank considerably expanded in recent decades —, the different parts of the UN Secretariat were able to identify major deficiencies of global financial arrangements, an issue on which broader global agreement was finally reached, though only through a series of global financial crises.

Unfortunately, this particular political economy, which facilitates the expression of alternative views, reflecting the stronger voice of developing countries and civil society, also constrains the influence of the UN on economic issues. To quote again Jolly, Emmerij and Weiss, and referring to the views of John Toye and Richard Toye in *The UN and Global Political Economy*: "the world continues to be governed by a twin-track system. The UN […] provides a forum in which ideas, proposals, and policies are debated. […] But when it comes to serious agreements, and implementation, the debate shifts to institutions in which industrialized countries place their confidence”.[8] Thus, despite their relevance, the views of the UN Secretariat are largely marginalized from the debate. In fact, the UN does not even have a regular voice in either the International Monetary and Financial Committee or the Development Committee, which it attends as an observer (it has been allowed to have a voice in the Development Committee in recent years, but only by special requests). And the agreements reached in UN intergovernmental forums are accompanied by weak follow-up processes, which lack any mechanisms for accountability for international commitments, and less so enforceability.

In the following pages I dwell into these issues in greater depth. In section 2, I focus on the views of the UN Secretariat. In section 3, I deal with the Monterrey Consensus. In section 4, I look at the follow-up to the Monterrey Conference, as well as the most recent processes: the Stiglitz Commission and the June 2009 Conference on the World Financial and Economic Crisis. In the last section, I briefly draw some conclusions.

2. The UN Secretariat’s views on global finance

The contributions of different parts of the UN Secretariat on global financial issues are remarkable in many ways, particularly in their capacity to identify the major flaws of the global financial system and therefore to foresee the vulnerability to financial crises that the world economy, and developing countries in particular, face. The work of

[8] Jolly, Emmerij and Weiss, *op. cit.*, p. 108. See also Toye and Toye, *op.cit*.

UNCTAD through its annual *Trade and Development Reports* (TDR) is particularly noticeable in this regard. Almost every issue from 1991 onwards emphasized that the surge of capital flows to the emerging economies, including to Latin America, which had undergone a dramatic debt crisis in the previous decade, was a bubble that would eventually burst. The 1998 and 1999 issues provided, in turn, the most lucid analysis among international institutions of the East Asian crisis and its impact on the developing world. These issues, together with the 2001 *TDR*,[9] presented a global policy agenda to manage the effects of world financial instability on developing countries, which underscored the role of capital account regulations as a preventive tool and debt standstills as a mechanism of crisis management.

ECLAC had been a central institution in the analysis of the debt crisis in Latin America in the 1980s, and its effects in unleashing what it called the "lost decade", a term that became broadly used worldwide. In the 1990s, when capital flows returned and the economies of the region liberalized their trade and capital accounts, it warned about the risks of full capital account liberalization in the face of the high volatility that capital flows have vis-à-vis developing countries. It then called for a more nuanced approach that took into account the potential volatility of different types of capital flows. This approach implied that macroeconomic policies should avoid exchange rate overvaluation as well as excessive monetary expansion during capital account booms, and that developing countries should adopt policies aimed at enhancing the effects of capital flows on investments, and avoiding the instability associated with speculative short term capital

[9] This report was later published as a book. See Yilmaz Akyüz (ed.), *Reforming the Global Financial Architecture: Issues and Proposals* (Geneva, Penang and London: UNCTAD, Third World Network and Zed Books, 2002).

movements. These ideas were best expressed in ECLAC's 1994 Report on *Latin America and the Caribbean: Policies to Improve Linkages with the Global Economy,*[10] and later in the 2000 report *Equity, Development and Citizenship.*[11]

After the East Asian crisis became widespread through the developing world, the different parts of the UN Secretariat (particularly ECLAC, UNCTAD and DESA, under the coordination of the first one) joined in producing, in January 1999, one of the earliest and most comprehensive agendas that has come out wince then on reform of the international financial architecture, which had an important influence on the process leading to the Monterrey Conference and Consensus.[12] The report underscored the fact that the Asian crisis as well as its predecessors – the Latin American debt crisis of the 1980s and the Mexican crisis of 1994-95 — showed the inherent tendency of financial markets to experience boom-bust cycles, as well as "the enormous discrepancy that exists between an increasingly sophisticated and dynamic international financial world […] and the lack of a proper institutional framework to regulate it". On the basis of its diagnosis, it proposed a complete reform agenda, which required action in six areas:

- Improved consistency of macroeconomic policies at the global level.

[10] The original English version is available on the ECLAC website: http://www.eclac.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/9/4739/P4739.xml&xsl=/tpl-i/p9f.xsl&base=/tpl-i/top-bottom.xslt However, the best version is the revised Spanish one published as *América Latina y el Caribe: Políticas para mejorar la inserción en la economía mundial* (Santiago: CEPAL and Fondo de Cultura Económica, 1998).

[11] The original English version is available on the ECLAC website: http://www.eclac.org/cgi-bin/getProd.asp?xml=/publicaciones/xml/5/4695/P4695.xml&xsl=/tpl-i/p9f.xsl&base=/tpl-i/top-bottom.xslt. There is a revised Spanish version, published as *Equidad, desarrollo y ciudadanía* (Bogotá: CEPAL and Alfaomega, 2000).

[12] *Towards a New International Financial Architecture,* Report of the Task Force of the Executive Committee of Economic and Social Affairs of the United Nations, January 21, 1999, http://www.un.org/esa/desa/ousg/articles/pdf/intlfinar.htm.

- Reform of the IMF aimed at providing adequate international liquidity in times of crisis.

- Improved financial regulation and supervision at both the national and international levels.

- The preservation of the autonomy of developing countries to manage the capital account.

- The incorporation of internationally sanctioned standstill provisions in international lending.

- The design of a network of regional and subregional organizations to support the management of monetary and financial issues.

The agenda was novel in many ways. In the second area, for example, it proposed counter-cyclical issues of Special Drawing Rights (SDRs), a low conditionality facility for countries experiencing financial contagion, and restricting conditionality to macroeconomic and financial policies. In relation to the last issue, it asserted that "Conditionality should not include issues related to economic and social development strategies and institutions, which, by their vey nature, should be decided by legitimate national authorities, based on broad social consensus". In the third area, it called for international regulatory standards, which should also be applied to hedge funds and offshore financial institutions, and the need to regulate risk-rating agencies. It underscored the link between macroeconomic variables and financial risk and proposed counter-cyclical prudential regulations – i.e., for prudential regulation and supervision to be "strengthened during periods of financial euphoria to take into account the increasing financial risks incurred by financial intermediaries", basically by raising capital adequacy requirements.[13] This counter-cyclical framework for prudential regulation would be adopted by the Group of 20 (G-20) in 2008. For a decade, the UN and the Bank of International Settlements (BIS) had been the only international organizations calling for a macro-prudential financial regulatory framework!

In relation to capital flows, the Task Force followed the views of UNCTAD and ECLAC in calling for regulation of capital flows. The recommendations included reserve requirements on short-term capital inflows and minimum stay periods, as part of permanent frameworks of capital account regulations that would be managed with a counter-cyclical focus. In calling for international debt standstills to manage debt crises, it saw "collective action clauses" as an essential instrument, as well as strict time limits on renegotiations, beyond which the IMF (if given the responsibility to manage debt workouts) or an independent debt panel would be given the authority to determine the conditions for debt restructuring.

The defense of the regional institutions was also remarkable, at a time when the US and the IMF were opposing the Japanese proposal to create an Asian Monetary Fund –which would, in a revised form, would take the form of the Chiang Mai Initiative agreed by the ASEAN countries, China, Japan and the Republic of Korea in 2000, and subsequently strengthened. The Task Force claimed that a denser institutional network of

[13] As a coordinator of this Task Force, I later developed this counter-cyclical prudential regulatory framework in José Antonio Ocampo, "Capital account and counter-cyclical prudential regulations in developing countries", in Ricardo Ffrench-Davis and Stephany Griffith-Jones (eds.), *From Capital Surges to Drought: Seeking Stability for Emerging Markets* (London: Palgrave/Macmillan and WIDER, 2003).

global and regional institutions would provide a more stable framework for global finance. In that regard, it proposed that "in the long run, the IMF could be visualized as part of a network of regional reserve funds" rather than the unique global institution it now is.

Since the 1980s, UNCTAD had been warning in its *TDR* about the risks of global financial instability, particularly, at that time, about debt deflation in the US and Japan. It continued to do so in the 1990s and 2000s. Since 2005 at least, global imbalances became a central focus of the joint annual report of DESA and UNCTAD, issued in January and updated for the ECOSOC meetings in June or July, the *World Economic Situation and Prospects (WESP)*, to which the UN Regional Commissions also contribute with their regional perspective.

Since 2005, this report warned that global imbalances had reached a stage where they posed a potential threat to sustainable world economic growth. In 2006 it criticized the views expressed at the time by Ben Bernanke (who would soon become Chair of the US Federal Reserve Board), according to which the major problem facing the world economy was a "savings glut". It showed that the major problem was rather that the strong expansion of world finance had not been reflected in higher productive investment. Thus, rather than a "savings glut", the major problem facing the world economy was "investment anemia". It also warned that the US housing bubble could bust and that, given the strong linkages between this bubble and global imbalances, it could bring down the world economy.

The 2007 issue warned again about the links between the US housing bubble and global imbalances and had a long discussion on international macroeconomic policy coordination. The 2008 report, published as usual in January of that year, was the only global economic report from a major multilateral institution to predict a strong slowdown of the world economy. The pessimistic scenario of that report foresaw world economic growth of only 1.6 percent, a very close approximation to the actual outcome. One of the reasons why its predictions outperformed those of other organization was that it considered that emerging markets would *not* "decouple" from the slowdown in the industrial world, as the IMF had predicted in its *World Economic Outlook*. Therefore, it saw the low risk premia that characterized emerging market bonds at the time as a sign of complacency on the part of international investors, and thus as a reflection of the underestimation of the risks that these economies faced.

The views on the global financial architecture were presented in great details in DESA's 2005 *World Economic and Social Survey (WESS)*, which was prepared as part of the follow-up to the Monterrey Conference.[14] Many of the analyses and recommendations of other UN reports, including those of the 1999 Task Force, on volatility of capital flows to developing countries, official development assistance, debt, global imbalances, the need for international economic policy coordination, and voice and participation of developing countries in international economic decision making, were analyzed in detail, with many additional insights.

[14] The last four chapter of this report were later published as a book. See José Antonio Ocampo, Jan Kregel and Stephany Griffith-Jones (coordinators), *International Finance and Development* (Himayatnagar, London and Penang: Orient Longman, Zed Books and Third World Network, 2007).

It is interesting to underscore here the views that were expressed in this report on the vulnerabilities that were being generated by the financial innovations and consolidation under way at the global level. In this regard, it indicated that: "The fact that a much larger, more complex and interlinked financial sphere has emerged, in which the market has replaced government regulation, means that problems in the financial system can have larger consequences for the real economy than in the past". In relation to financial innovations, including derivative markets, it argued that, although they have allowed for the independent pricing of risk, this "process does not necessarily eliminate or reduce risk", and particularly that "more risk may end up in parts of the financial system where supervision and disclosure are weaker, or in parts of the economy less able to manage it". For that reason, "they could have the same destabilizing impact in the present cycle that deregulation had in earlier ones". In relation to regulation, it argued, as the 1999 Task Force and ECLAC, for "introducing some counter-cyclicality into financial regulation, which would compensate for the tendency of financial markets to behave in a pro-cyclical manner".[15]

3. The Monterrey Consensus

The UN General Assembly decided in December 1999 to convene the International Conference on Financing for Development, which was held in Monterrey in March 2002. This was a response to the severe financial crisis that had hit the developing

[15] See United Nations, *World Economic and Social Survey 2005: Financing for Development*. Quotations are taken from pp. 172, 173 and 175. This document is available in the UN website, at: http://www.un.org/esa/policy/wess/past-issues.htm#2005. See also Ocampo, Kregel and Griffith-Jones, *op cit.*, ch. IV.

world since 1997, spreading from East Asia to Russia and Latin America, and that, by then, had engulfed most of the developing world.

The Conference was an astonishing success. It brought together a large number of Heads of State and Government and possibly the largest group of Ministers of Finance and Governors of Central Banks ever gathered around a UN meeting. The heads of the BWIs and WTO were also present. In a significant sense, as already pointed out, it brought global economic issues back to the United Nations. It also mobilized civil society, including the private sector. It was part of a larger and successful sequence of UN Summits and Conferences held since 1990 (with precedents in the 1970s), which had placed the UN at the center of global debates on social and sustainable development issues – but, until Monterrey, not economic issues. In turn, this series of Summits and Conferences was a reflection of the enhanced role given to the UN in the post-Cold War era. In short, Monterrey showed that the UN can be the appropriate forum for crosscutting issues and thus for debate and consensus-building on the "coherence" of the global system, to use UN terminology.[16]

One of the great successes of this process was the close cooperation of the BWIs and WTO with the UN Secretariat and the Conference's Preparatory Committee, which carefully negotiated over two years what would become the Monterrey Consensus. Indeed, it brought cooperation of the BWIs and WTO with the UN to new levels.[17] This was also reflected in the relevance given by the BWIs to the follow-up of the UN

---

[16] See, for example, the reflections by Barry Herman, "United Nations as a forum for reform of global institutions", *Economic and Political Weekly*, November 8, 2008, pp. 15-19.
[17] See in this regard the Note by the UN Secretariat on "Enhancing collaboration and cooperation between he United Nations and the Bretton Woods institutions", September 15, 2009, available in the UN website at: http://www.un.org/esa/ffd/

Millennium Declaration, and particularly to the Millennium Development Goals (MDGs), which included the launch of the *Global Monitoring Report*. Since 2004, this report has been presented annually to the Development Committee of the World Bank and the IMF.

Two factors undoubtedly helped strengthen this cooperation in the short term. The first was the growing attack by civil society and many political movements around the world of the IMF for its interventions during the Asian crisis, together with the mounting criticisms of the structural adjustment policies pushed by the World Bank since the 1980s under what by now was broadly branded as the "Washington Consensus".[18] Participating actively under the broader UN system umbrella, to which they belong, seemed, therefore, as an attractive option for the BWIs. The second factor was the terrorist attacks of September 11, 2001, in the US. This event facilitated consensus building in the two major global events that followed: the WTO Ministerial Meeting that took place in Doha in November of that year, and the Monterrey Conference.

The Monterrey Consensus is a remarkable document in many ways: it is short, balanced and ambitious.[19] Indeed, it represents the most comprehensive and farsighted agenda of reform of the global economic architecture agreed so far at the intergovernmental level. The Zedillo Commission as well as the UN Task Force reports mentioned earlier were some of the major inputs in the careful preparatory process. No doubt, the word "Consensus" used in the agreed document had the Washington

[18] The term had been coined by John Williamson in "What Washington means by policy reform", in John Williamson (ed.), *Latin American Adjustment: How Much Has Happened?* (Washington, D.C.: Institute of International Economics, 1990), but the meaning came to be broader than the ten policies that he suggested were the major reforms being pushed by the BWIs.
[19] Also available at: http://www.un.org/esa/ffd/

Consensus as a point of reference, but was meant to serve as the basis for a "new partnership between developed and developing countries" (para. 4 of the Consensus) and a "fully inclusive and equitable" globalization (para. 7). It was, furthermore, framed in the context of the principle that "Each country has primary responsibility for its own economic and social development" but that such national efforts "need to be supported by an enabling international economic environment" (para. 6).

The Consensus covers six areas. The first and third refer to mobilizing domestic financial resources for development and international trade, and are somewhat less relevant to the issues covered in this essay. The first, however, and particularly the principle of good governance that it incorporated in paragraph 11, was central to the commitment by developed countries to the outcome document, though the developing countries insisted in adding "at all levels" (para. 4), an issue that is particularly important for debates on global governance. Although some critics see this section as a mere reformulation of the Washington Consensus, this interpretation is inappropriate, as the Monterrey Consensus emphasizes the need for a balance between States and markets, and emphasizes issues that were absent in the Washington Consensus, such as the need to strengthen active labor market policies and social protection, or others with which drafters of the Washington Consensus would disagree, such as the positive role of national development banks. In any case, the insistence of these and other parts of the document on the role of the private sector, an appropriate investment climate and exploiting the opportunities generated by global markets, as well as sound macroeconomic policies, are central to the eclectic view that underlies the Monterrey Consensus.

The other four parts of the Monterrey Consensus refer to major issues of global finance, organized around four headings: (i) private capital flows, including foreign direct investment; (ii) increased financial cooperation for development; (iii) external debt; and (iv) systemic issues.

In relation to the first of these topics, the Consensus emphasized the need for "sufficient and stable capital flows" to developing countries, but also for measures to "mitigate the impact of excessive volatility of short-term capital flows", together with strengthened "prudential regulation of supervision of *all* financial institutions, including highly leveraged institutions" (para. 25; emphasis added).

In the second case, it reaffirmed the Official Development Assistance (ODA) target 0.7 percent of gross national product of industrial countries and the 0.15-0.20 percent target for LDCs (para. 42). It emphasized the need to make ODA more effective, through harmonization of donors' operational procedures, untying aid, and enhancement of the absorptive capacity of developing countries, based on the principle of ownership by recipient countries of their development strategies (para. 43). It went on to support exploring "innovative sources of financing" (para. 44) and underscored the role that multilateral development banks play in servicing developing countries, including their contribution to mitigating the excessive volatility of financial markets (para. 45). This reference to the counter-cyclical role of development banks was not clearly recognized at the time. I also emphasized the role of regional and subregional development banks in guaranteeing the "ownership and overall efficiency" of the multilateral development banking system (para. 45)

In relation to external debt, the Consensus endorsed the principle that "Debtors and creditors must share the responsibility for preventing and resolving unsustainable debt situations (para. 47). This is consistent with the views expressed on the resolution of financial crises: "we emphasize the importance of putting in place a set of clear principles for the management and resolution of financial crises that provide for fair burden-sharing between public and private sectors and between debtors, creditors and investors" (para. 51). The implementation of these principles should include, in the light of the Consensus, vigorous debt relief measures, when appropriate (para. 48), including the speedy implementation of the Heavily Indebted Poor Countries (HIPC) Initiative, already underway. It also endorsed the view that the achievement of the development goals agreed to in the Millennium Declaration – i.e., the MDGs — should be one of the criteria in debt sustainability reviews (para. 49).

The opening paragraph on systemic issues defines the basic objective of enhancing "coherence, governance, and consistency of the international monetary, financial and trading systems", underlining "the importance of continuing to improve global economic governance and to strengthen the United Nations leadership in promoting development" (para. 52). Particularly important in this area was the call to apply principles of good governance at all levels, which led to following provision: "We stress the need to broaden and strengthen the participation of developing countries and economies in transition *in international economic decision-making and norm-setting*" (p. 62; emphasis added). This was meant to apply to the BWIs, but also to the BIS and norm-setting institutions such as the Financial Stability Forum and the Basel Committee on Banking Supervision (para. 63). It called for "strong coordination of macroeconomic policies among the leading industrial countries" (para. 54), strengthening crisis prevention by multilateral financial institutions (paras. 55, 59), and reviewing the role of Special Drawing Rights (SDRs), an issue that had been underscored by both the 1999 UN Task Force and the Zedillo Commission. Linking systemic and debt issues, it asserted that "we would welcome consideration by all relevant stakeholders of an international debt workout mechanism" (para. 60). And it also mentioned the need to strengthen international tax cooperation (para. 64) and to finalize negotiations of the UN Convention against Corruption (para. 65), and asserted, in relation to credit rating agencies, that "sovereign risk assessment made by the private sector should maximize the use of strict, objective and transparent parameters" (para. 58).

4. From Monterrey to the global financial crisis

The detailed presentation of the Monterrey Consensus in the previous section underscores the comprehensive character and novelties of the agenda it put forward. This is particularly important, given that it is the only universally agreed framework for global financial reform –and an extremely valuable one at that. In that light, it is frustrating to see how little has been done to implement it.

Among major successes in implementation, we should count, first of all, the reversal of the downward trend in ODA that had prevailed up to then. So, although with some temporary reversals, ODA has increased from 0.22 percent of the GNI of developed countries in 2001 to 0.30 percent in 2008. This is still far from the 0.7 percent target, but the European Union has now committed to meeting it, and with very few exceptions

(Japan and Greece), all industrialized countries not meeting the target have raisded their ODA. The US continues to be the worst performer.[20]

The adoption of the Paris Declaration on Aid Effectiveness in February 2005 was also an important landmark. It adopted five principles: ownership, alignment, harmonization, managing for results and mutual accountability, some of which had been outlined in the Monterrey Consensus. This process took place at the OECD's initiative and thus outside the UN framework, a problem that has plagued many other post-Monterrey processes.

The UN Convention against Corruption was adopted in October 2003 and became effective in December 2005, following ratification by thirty signatories. It has continued to expand in membership and promises to be close to a universal instrument. It followed the mandate to include "the question of repatriation of funds illicitly acquired to countries of origin" (para. 65 of the Monterrey Consensus), with asset recovery being adopted as a fundamental principle of the Convention.

Another interesting area that was advanced by the Monterrey Consensus was the debate on innovative sources of financing. In 2004, the Presidents of Brazil, Chile and France, and the UN Secretary-General launched the Action against Hunger and Poverty, to which other countries soon joined. This was followed in 2006 by the launch, at France's initiative, of the "Leading Group on Solidarity Levies". Some initiatives in this area, particularly a solidarity levy on airlines tickets, which amounts to taxation for global objectives, have already been put in place, as well as novel financing mechanisms.

[20] See on these issues, the UN's *MDG Gap Task Force Report 2009* (New York: United Nations, 2009), pp. 4-10.

Most of these initiatives have been oriented towards global health programs.[21] A long history of advocacy for directly raising revenues to achieve global objectives has, therefore, started to become a reality, though the scale is still very limited.

The debate on voice and participation of developing countries in international economic decision making was also unleashed by Monterrey, and has by now led to some reforms of quota and voting power in the IMF as well as continued discussion of this issue in both the World Bank and the IMF. However, IMF reforms in this area are considered by many analysts (including the author of this essay) as marginal, at best as the first installment of an incomplete process. The decision of the G-20 to increase the participation of major emerging countries in the Financial Stability Forum (now Board) is also a step in that direction.

The level of interaction between the BWIs, WTO and the UN has also been kept high by historical standards. It includes both explicit meetings at the intergovernmental level (particularly the annual spring meeting organized by ECOSOC with IMF, World Bank, WTO and UNCTAD), the participation of these organizations in the major mechanism of coordination of the UN system, the Chief Executives Board for Coordination (CEB), mutual participation in each others' fora (more formalized in the case of the UN than in that of the BWIs, as already pointed above) and many other forms of collaboration. The formal commitment of the BWIs to the Monterrey Consensus and the MDGs has also been a characteristic of the post-Monterrey environment, though many times with disregard for the fact that they are *UN* processes.

---

[21] See on this issue, as well as the broader issue of the follow-up of Monterrey, the recent paper by Ricardo Ffrench-Davis, "The global crisis, speculative capital and innovative financing for development", *CEPAL Review*, No. 97, April 2009, pp. 57-74.

One particular symptom is the fact that the UN Secretariat has no role in the major mechanism designed by the World Bank to follow-up the MDGs, the *Global Monitoring Report.* This is in sharp contrast with the consultations that take place when the UN Secretariat prepares the annual report on the follow-up to Monterrey and the interagency cooperation in the statistical follow up of the MDGs coordinated by the UN Statistical Division, in which the World Bank is invited as a central actor. Another symptom is the fact that, whereas both the heads of the IMF and the World Bank were present at Monterrey and the first follow-up meeting that took place in the UN General Assembly in October 2003, they have been absent since then from these processes, including from the Doha follow-up Conference and the UN Conference on the World Financial and Economic Crisis. These are reflections a broader problem: the less than full commitment by the BWIs to cooperation with the UN, despite their character as specialized agencies of the UN system.

Although advances made since Monterrey were important, they certainly fell far short of the comprehensive agenda that had been agreed upon. Thus, for example, whereas developing countries significantly improved their financial regulation since the Asian crisis, the regulatory deficit continued to increase in the industrialized world and in Central and Eastern Europe. This deficit became one of the major sources of the current global financial crisis. The major initiative in this area, Basel II, emphasized self-regulation by major financial institutions, an approach that is now broadly recognized as inappropriate or at best insufficient. In terms of macroeconomic policy coordination, the multilateral surveillance on global imbalances launched by the IMF in 2006 was an interesting step in the positive direction, but it has lacked binding commitment by the parties and an accountability mechanism. In the area of debt, the launch of the Multilateral Debt Relief Initiative in 2005 was a major step forward in debt relief for highly indebted poor countries, but no attempt has been made to create an international debt workout mechanism after the failure of the 2001 IMF initiative to create a Sovereign Debt Restructuring Mechanism.

The world financial crisis renewed the interest in the reform agenda, now under the leadership of the G-20, which by September 2009 had held three summits since the crisis erupted. The response has involved mainly: (i) some level of macroeconomic policy coordination, though weak and using an entirely informal framework; (ii) a major push toward making financial regulation more comprehensive and counter-cyclical, along the lines suggested by the UN for almost a decade; it remains to be seen, however, how much of the regulatory drive will be effectively implemented; (iii) a major injection of resources into the IMF, which itself undertook in March 2009 a major revision of its credit lines, including the creation of a preventive instrument, the Flexible Credit Line; this includes a revitalization of SDRs, thanks to the final approval by US Congress of the emission that had been agreed in 1997 for 21.4 SDRs (slightly over USD34 billion at early October 2009 exchange rates), to which an additional issue equivalent to USD250 billion was added; again, this followed a longstanding UN recommendation; and (iv) renewed interest in reform of voice and voting power in the BWIs, and adoption of the G-20 rather than the G7/8 as the major framework of economic policy coordination, which implies the inclusion of all its members in the Financial Stability Forum (now Board) (FSB). An additional interesting step has been the emphasis giving to international tax cooperation, in particular to combat tax evasion.

This agenda is welcome, though it leaves aside major issues of relevance to developing countries that have been emphasized in the Monterrey Consensus, notably those associated with the regulation of cross-border capital flows (remarkably absent from the debate on financial regulation) and the design of a stable debt workout mechanism. Also, although the increased participation of major developing countries in the G-20 and the FSB is a step forward, these are informal mechanisms that represent an unclear advance in terms of designing an inclusive global governance, and certainly do not meet the Monterrey commitment "to strengthen the United Nations leadership in promoting development".

The Doha follow-up Conference had been agreed prior to the global financial meltdown of September 2008, but this event increased its relevance and made it call for the Conference on World Financial and Economic Crisis. The President of the General Assembly decided, in turn, to convene a Commission of Experts on Reforms of the International Monetary and Financial System under the leadership of Joseph Stiglitz.

Although the Doha outcome document is certainly relevant, that adopted in the June 2009 Conference on the global crisis, after initially very conflictive negotiations, is probably more so. This document, as well as the Stiglitz Commission report, again placed the UN "ahead of the curve", by proposing a more comprehensive agenda at the intergovernmental and technical levels, respectively.

The Conference recognized, among other issues, the need for more ambitious reforms of credit lines of multilateral development banks and designing effective debt restructuring mechanisms; supported the global push for better financial regulation as well as increased tax cooperation, including in the latter case the use of the UN for that purpose;[22] supported the G-20's initiative on SDRs and the need to keep under review the allocation of SDRs for development purposes; the need to discuss the reform of the global reserve system, including the role of SDRs in that system; deeper governance reforms in multilateral financial institutions and standard setting bodies, and the role of regional organizations. And, of course, it recognized the character of the United Nations as an inclusive forum, asserting that "on the basis of its universal membership and legitimacy, it is well positioned to participate in various reform processes aimed at improving and strengthening the effective functioning of the international financial system and architecture" (para. 2 of the outcome document).

The Conference implicitly endorsed some of the reforms suggested by the Stiglitz Commission, which had been circulated among UN members in April 2009.[23] The Commission presented a novel interpretation of the origins of the crisis, with an emphasis on the role of adverse trends in income distribution, and the most ambitious agenda of global financial reform, which refers to global macroeconomic policy (ch. 2), financial regulation (ch. 3), the governance of international institutions (ch. 4) and new mechanisms of global financial cooperation (ch. 5).

Among the many issues the Stiglitz Commission raised in relation to the global macroeconomic policy, it emphasized the need for novel financing instruments, with their own governance structures, although possibly channeled through existing institutions.

[22] ECOSOC has the only global mechanism of cooperation of its kind, the Committee of Experts on International Cooperation in Tax Matters. In recent years, it has been suggested that it should become an intergovernmental organ, still as part of the ECOSOC machinery.
[23] See Document A/63/838, dated April 29, 2009.

This proposal was meant to be an attractive option for developing countries with resources that could be lent to other developing countries, but unwilling to do so through institutions in which they are strongly underrepresented. It also emphasized that, for many developing countries, more lending and thus, debt, may be inappropriate, and hence that there is an urgent need for increased ODA, in particular for crisis management in the poorest countries. In relation to regulation, one of the major differences with other reports was its emphasis on the need to incorporate cross-border capital flows into the regulatory discussion, one issue that has been at the heart of the analysis of UN Secretariat agencies for several decades.

In the area of governance, the major proposal put forward was the creation of a Global Economic Coordination Council that would "seek consistency of policy goals and policies of major international organizations, and support consensus building among governments"; it would also "promote accountability of all international economic organizations, identify gaps that need to be filled to ensure the efficient operation of the global economic and financial systems, and make proposals to the international community for remedying deficiencies in the current system" (ch. 4, para. 25). The Council "would have a mandate over the UN System in the economic, social and environmental fields, which include the Bretton Woods Institutions (BWIs) and should include the WTO by bringing it formally into the UN System".

Although maintaining its size small enough for effective discussion and decision-making, representation in the Council "could be based on a constituency system designed to ensure that all continents and all major economies are represented" (ch. 4, para. 26). Note the emphasis of this proposal on governing the UN *System,* not only the UN

Organization, and the inclusive character of representation in the Council, which is essential to guarantee its legitimacy – features that the current G-20 unfortunately lacks. The Council would, in turn, be supported by an International Panel of Experts "tasked with the assessment and monitoring of both short-term and long-term systemic risks in the global economy", and to support coherence and effectiveness of the global governance system (ch. 4, para. 22). This Panel could actually be created as an immediate step, building, among others, on the successful experience of the Intergovernmental Panel on Climate Change (IPCC).

In the area of new mechanisms for international economic cooperation (ch. 5 of the report), two should be emphasized: the proposals for a major reform of the global reserve system[24] and the creation of an International Debt Restructuring Court. The first of these reforms is meant to correct the inequities and instability that characterize the current, largely dollar-based reserve system, as well as the deflationary biases that characterize it, particularly during world economic crises. It would be based on a truly global reserve currency, which could be based on the SDRs but could also be created by a network of regional reserve funds through a bottom-up approach. This mechanism should have a strong counter-cyclical focus, by providing ample liquidity to countries facing balance-of-payments crises during global downturns, through counter-cyclical lending, as central banks from industrial countries have been doing during the recent crisis, as well as possibly through counter-cyclical issues of the global reserve currency.

[24] In parallel fashion to the Stiglitz Commission's proposal on the global reserve system, the Chinese central bank governor put forward its own reform proposal. See Zhou Xiaochuan, "Reform the international monetary system" (Beijing: People's Bank of China, March 26, 2009). Available at: http://www.pbc.gov.cn/english//detail.asp?col=6500&ID=178

The proposal on sovereign debt is aimed at overcoming the deficiencies of the current system (or, rather, as the report characterizes it, “non-system”), by providing at the global level a function that is present nationally in the form of domestic bankruptcy procedures. It would be based on the principles that “the work-out must be fair, transparent, sustainable, and promote development” (ch. 5, para. 79). The Court would deal primarily with problems of sovereign debt restructuring, but it could also extend its reach to consider private bankruptcy cases involving parties in multiple jurisdictions. One of its functions would be mediation, but the Commission also proposed that, as an interim step, an International Mediation Service could be created. It argued that these mechanisms should *not* be placed under the IMF, as it is also a creditor and, given its current governance structure, is ¨subject to disproportionate influence by creditor countries”. For the same reason, it argued that the World Bank’s International Center for Settlement of Investment Disputes “has similarly failed to generate confidence from the developing countries as a fair arbitrator of investor-state disputes under bilateral investment agreements” (ch. 5, para. 78).

5. Conclusions

This essay underscore that the UN has been well “ahead of the curve” in the analysis of global finance and in proposing reforms of the international financial architecture over the past two decades. Its intergovernmental processes have proven to be the best mechanisms to reach global consensus, thanks particularly to its most inclusive character, which include broad participation by developing countries and openness to civil society organizations. The reports of different parts of the UN Secretariat have been much better at identifying major problems of current structures. And the Organization has also had the capacity to convene independent panels of experts that have proposed agendas that are far reaching in their scope. The major problem has been the weak follow-up to intergovernmental agreements.

Looking forward, the UN should be central to global financial reform. Thanks to its inclusive character and, therefore, legitimacy, it can provide the apex of a governance structure, perhaps along the lines of the Global Economic Coordination Council put forwards by the Stiglitz Commissions or similar recommendations in the past to create an Economic Security Council. Even if the route of creating a global economic governance council is not followed, the UN can serve as the forum for global consensus-building in cross-cutting issues – related, therefore, to the coherence of the global governance system— among the heterogeneous members of the international community, including civil society and the private sector, as the Monterrey Conference demonstrated. The G-20 can never be a good substitute in this regard. Given its proven record, the Secretariat agencies should be given stronger voice in the BWIs, and the latter should fully internalize the fact that they are part of the UN system. In short, the UN cannot replace the BWIs in their technical functions, but it can certainly contribute to global financial governance through analysis, open debate and intergovernmental consensus-building.