Sixty-eighth session of the General Assembly
Second (Economic and Financial) Committee

Separate meeting on
"Response to the world financial and economic crisis and its impact on development and prospects for restoring confidence and economic growth"

United Nations Headquarters
Conference Room 2 (CB), 13 November 2013, 3:00 – 6:00 p.m.

CONCEPT NOTE

Mandate

The General Assembly, in its resolution 67/197 of 21 December 2012 on the "International financial system and development", decided to convene at its sixty-eighth session a separate meeting of the Second Committee under the item entitled "Macroeconomic policy questions" "to discuss actions in response to the world financial and economic crisis and its impact on development and prospects for restoring confidence and economic growth, as a further contribution to the follow-up to the Conference on the World Financial and Economic Crisis and Its Impact on Development"(paragraph 25).

Format

The meeting will take place on Wednesday, 13 November 2013, from 3 p.m. to 6 p.m., in Conference Room 2 (CB), at United Nations Headquarters in New York. It will be chaired by H.E. Mr. Abdul Salam Diallo (Senegal), Chair of the Second Committee. A keynote address will be delivered by Mr. Jose Antonio Ocampo, Professor of Professional Practice in International and Public Affairs, Scool of International and Public Affairs, Columbia University, and Chair of the Committee for Development Policy, followed by panel

(f) Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (New York, 22 April 2013) (A/68/78–E/2013/66).
(g) Progress report of the Ad Hoc Open-ended Working Group of the General Assembly to follow up on the issues contained in the Outcome of the Conference on the World Financial and Economic Crisis and Its Impact on Development (A/64/884)

Background

The world financial and economic crisis of 2008-2009 severely affected global development prospects and threatened economic and social progress. Five years later, and despite recent improvements in world financial markets, the world economy is still struggling to recover, and the global jobs crisis continues unabated. The weak recovery greatly complicates efforts by the international community to accelerate progress towards achieving the Millennium Development Goals (MDGs) by the 2015 deadline. It also increases the urgency of formulating a strong post-2015 development agenda which will have to complete the unfinished business of the MDGs while also addressing new challenges.

The outcome document of the Conference on the World Financial and Economic Crisis and Its Impact on Development, held in June 2009 in New York, identified four areas where urgent action was needed to respond to the crisis promptly and decisively: (i) making the stimulus work for all; (ii) containing the effects of the crisis and improving global resilience in the future; (iii) improving regulation and monitoring; and (iv) reforming the international financial and economic system and architecture. While some progress has been achieved in all of these areas, it remains far from sufficient. Achieving sustainable development for all beyond 2015 will require further action to reform and strengthen the international financial system and to address continued systemic fragilities and imbalances in the global economy.

(i) Making the stimulus work for all

In the aftermath of the crisis, international policy cooperation and coordination mitigated some of the global risks and helped avert a more severe downturn. However, more decisive action – at the national, regional and international levels – is needed on several fronts to ensure a return to strong, sustainable and robust growth at the global level. Given the continuing weakness in global aggregate demand, fiscal policy that is supportive of the recovery, without endangering the long-run sustainability of public finances, could be a particularly effective tool. International policy coordination also needs to be enhanced to respond to negative spill-over effects of monetary policy in developed countries on developing countries.

To effectively address the global jobs crisis, bold and coordinated macroeconomic policies would need to be further complemented by social and labour policies at the national level. Countries need sufficient policy space to implement appropriate domestic policies, including, for example , policies to encourage wage increases that are in line with productivity growth, an active use of minimum wages to address inequality and working poverty, and/or the extension and upgrading of nationally determined social protection systems to provide more resilience to households and address poverty and exclusion.

(ii) Containing the effects of the crisis

The international community has played an important and positive role in containing the human and social impacts of the crisis. In the immediate aftermath of the crisis, coordinated action by Central Banks averted a worsened slowdown. More recently, close cooperation has ensured that countries did not resort to protectionism, and competitive devaluations were largely avoided. Official development assistance (ODA), while still falling short of commitments, increased in the immediate aftermath of the crisis. However, since 2010, ODA has fallen for two consecutive years, by a total of 6 per cent in real terms. Looking beyond 2013, ODA is expected to stagnate over 2014-2016, according to the latest OECD survey on donors' forward spending plans, threatening to undermine the final push to achieving the MDGs by 2015. Insufficient progress has been made as well in tapping innovative sources of development finance, even though there are technically feasible proposals that could greatly contribute to addressing global problems.

International public finance and ODA in particular, will remain critical, especially for least developed countries that require considerable financing in order to meet internationally agreed development goals, including the MDGs, but lack domestic savings or access to international capital markets. For this reason, renewed commitments are needed by major donors in order to reverse the decline in ODA and to increase disbursements by 2015.

(iii) Improving regulation and monitoring

International financial regulation has been strengthened since the crisis, contributing to a more resilient international financial system. However, regulation has still focused primarily on ensuring the safety and soundness of the financial system, centred on the banking sector through the Basel III international regulatory framework for banks. The regulatory and policy framework currently do not give sufficient attention to the other criteria that are important for a well-functioning financial sector, in particular ensuring that the financial sector promotes growth and provides access to credit and other financial services. For example, while it is still too early to estimate the full effects of Basel III, there is a concern that, by raising the cost of lending, the Basel capital adequacy rules may have the effect of limiting riskier lending, including access to finance, particularly for small and medium-sized enterprises (SMEs).

There is no one-size-fits-all approach for building an inclusive financial system. Some countries have placed priority on building a nationwide electronic payment system, others have focused on access to credit for SMEs and still others have focused on the need to improve the quality of usage, financial education and consumer protection. In all cases, coordination among a wide array of public and private actors is vital in order to arrive at a regulatory framework conducive to inclusive finance.

The development and adaptation of international financial regulation would also benefit from greater representation of and participation by developing countries in the regulatory reform process. Despite some progress, formal representation in international financial regulatory bodies, such as the Bank for International Settlements, the Basel Committee on Banking Supervision and the Financial Stability Board, is limited to advanced economies and a number of major emerging market economies.

(iv) Reforming the international financial and economic system and architecture

While global imbalances on the current account of major countries are expected to continue to narrow, their reduction reflects, to a large part, a cyclical downturn, representing a weakening in external demand in the deficit countries rather than a strengthening of external demand from the surplus countries. As a result, global imbalances should remain of concern to policy makers. Indeed, their sustained reduction has been an important objective for the G20. Moreover, as discussed above, effective policy coordination among the major developed and developing economies is important in enabling the global economy to embark on a sustained recovery while at the same time keeping global imbalances under control. There are nevertheless challenges in arriving at a politically agreed upon internationally coordinated answer to addressing global imbalances.

Additional risks in the international financial system, such as volatile cross-border capital flows and risks associated with sovereign default also need to be addressed if the international financial system is to better serve development needs. Short-term volatile capital flows and the risk of sovereign default both complicate macroeconomic management, divert funds from long-term investment, hamper growth, and can potentially precipitate financial crises. Furthermore, such heightened risks have helped fuel the build-up of international reserves by developing countries as a form of self-insurance, diverting funds from development needs, with further negative implications for global imbalances. A strengthened international governance framework is needed to address these issues on a global level.

The 2010 governance reforms of IMF and the World Bank Group are considered important steps towards a more representative, responsive and accountable governance structure. The World Bank Group shareholding reviews increased the voting power of developing and transition countries in the International Bank for Reconstruction and Development by 4.59 per cent to 47.19 per cent. The IMF reform foresees shifts in quota shares to emerging market and developing countries of over 6 per cent, along with greater representation for such governance is indispensable for enhancing the credibility, legitimacy and effectiveness of these institutions. However, while these changes are important steps forward, many countries argue that more needs to be done to better reflect the changing relative weights of members in the world economy.

The way forward

The world financial and economic crisis has exposed numerous weaknesses in the international financial system. Despite global efforts, they remain insufficiently addressed. In order to achieve the MDGs by the 2015 deadline and to create an international enabling environment for achieving sustainable development beyond 2015, further steps need to be taken. In particular, the post-2015 agenda will require a coherent financing strategy for implementation. This financing strategy can build on existing international agreements, as