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# The challenges of the financial crisis to the world economic institutions

**Report**[1]
Committee on Economic Affairs and Development
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*Summary*

The report looks at the impact of the financial and economic crisis on some of the major international institutions that were set up to help stabilise and regulate the global economy, including the International Monetary Fund, the World Bank, the World Trade Organization, the International Labour Organization, the Organisation for Economic Co-operation and Development, the Bank for International Settlements, the new Financial Stability Board set up by the G20 at its summit in London on 2 April 2009, as well as the G20 itself.

The rapporteur considers that the main challenge facing the international financial institutions and the multilateral development banks, as well as the governments that fund them, is to ensure adequate global liquidity and stability in order to restore growth and hence employment. In addition, such institutions must play a major part in restoring confidence in the international financial system by contributing to the enhancement of its regulatory framework. Restoring health to the international banking system must also be a top priority. And efforts must be stepped up to ensure that the least developed countries do not suffer disproportionately as a result of the crisis.

Hence the rapporteur welcomes the coordinated steps taken by the G20 at its summit in London on 2 April 2009 as well as the ongoing reform measures introduced by the organisations concerned, which should allow them to respond more effectively to the present crisis and to act to prevent future turmoil.

1. Reference to committee: Doc. 11402; Reference No. 3384 of 23 November 2007.

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**A. Draft resolution**

1. The Parliamentary Assembly expresses its solidarity with governments and parliaments in Europe and around the world that are struggling to counter the effects of one of the worst financial and economic crises for decades, with its severe negative impact on growth, trade, investment and employment across the globe and untold social and human consequences. Among other things, the crisis has focused renewed and more urgent attention on the role and relevance of the world's economic and financial institutions and their governance, which were already under close scrutiny before the crisis, not least in order to assess how far their mandates allow them effectively to help overcome the crisis and the role they should play in preventing such turmoil in the future.

2. In this context the Assembly reaffirms its Resolution 1651 (2009) on the consequences of the global financial crisis, which set out principles that should be taken into account in seeking to come out of and soften the recession and reform the financial system, including the need to safeguard the social and economic rights of citizens. In this context, the Assembly encourages the International Labour Organization to intensify its work to alleviate the often dramatic cost of the crisis in human terms. The Assembly also strongly reaffirms the right of every citizen to be fully and accurately informed about markets and financial products in a transparent manner, so as to allow optimum management of risk to their savings. The availability of complete and precise information to consumers is essential to any well functioning economy.

3. The Assembly welcomes the progress already made in reforming the international financial architecture under the aegis of the Group of 20 major industrial and emerging countries, whose leaders met in Washington D.C. on 15 November 2008 and in London on 2 April 2009 and will meet again before the end of 2009 to review further progress. The fact that the G-20, a body more representative of the global economy than the G-7 or G-8, is spearheading these efforts marks in itself a major change in international financial governance and ensures that its deliberations will carry weight. Its membership includes the key emerging economies and represents some 90% of world GNP, 80% of world trade and two-thirds of the world's population.

4. The Assembly considers that the main challenge facing the international financial institutions (IFIs), such as the International Monetary Fund (IMF), and the multilateral development banks (MDBs), such as the World Bank, as well as the governments that fund them, is to ensure adequate global liquidity and stability in order to restore growth and hence employment. In addition, the IFIs must play a major part in restoring confidence in the international financial system by contributing to the enhancement of its regulatory framework. In this context the Assembly welcomes the work of the Financial Stability Forum and its transformation into an enlarged and strengthened Financial Stability Board. The Assembly considers that restoring health to the international banking system must be a top priority. For their part, the MDBs must step up their efforts to ensure that the least developed countries do not suffer disproportionately as a result of the crisis.

5. The Assembly expresses particular satisfaction that the G-20 has assigned additional resources to the IMF and the MDBs to cope with the demands arising from the crisis. The resources of the IMF are to triple to $750 billion, and it has been given authority to issue $250 billion in new Special Drawing Rights. The MDBs have been ensured adequate capital to increase their lending by at least $100 billion, including to low-income countries. Nevertheless, the Assembly expresses concern that much of this funding remains outstanding. The Assembly therefore calls on those governments of the G-20 and those of other Council of Europe member states that have not yet contributed to ensure that the IFIs and MDBs are guaranteed sufficient funds to perform the tasks they must assume.

6. The economic crisis shows that the role of nation states in a globalised world is limited. Therefore international economic and financial co-operation must be strengthened. There are global systemic problems in the financial structures and therefore these structures must be changed. The supervision of rating systems must be developed. The international reserve system based on national currencies must be reviewed. The need for an international bankruptcy court should also be considered.

7. The Assembly notes with alarm that, although the Organisation for Economic Co-operation and Development (OECD) has reported that Official Development Assistance reached its highest level ever in 2008, many donor countries are still not fulfilling the promises they made at the G-8 Summit in Gleneagles, Scotland, in 2005. Moreover, the OECD expects that remittances from migrant workers, a major source of income for the developing countries, will drop significantly in 2009.

8. The Assembly welcomes the loans arranged by the IMF with countries severely hit by the crisis, including several Council of Europe member states. While the Assembly urges all countries to follow policies of fiscal responsibility, it also calls on the IMF to provide early preventive advice to countries likely to experience difficulties rather than being forced to impose harsh conditions on loans to them when it is too late

to do otherwise. In this context, the Assembly welcomes the steps taken by the IMF to introduce more flexibility into its lending, including higher limits, increased concessional lending for low-income countries, less stringent conditions, improved Stand-by Arrangements and the new Flexible Credit Line designed to insure countries with basically sound economies against sudden capital outflows.

9. The Assembly welcomes the steps already taken by the Bretton Woods institutions to improve their governance, legitimacy, credibility and accountability, not least by providing a greater voice for the emerging and developing countries, but underlines that in order to carry out their new responsibilities effectively, they should speed up the implementation of reforms going forward.

10. Conscious that fair and balanced international trade is a major contributor to world economic growth and also employment, and that such trade is expected to fall by 9% in 2009, the Assembly supports the G-20 in its call to reject protectionist measures and welcomes its decision to ensure availability of at least $250 billion over the next two years to support trade finance through export credit and investment agencies and through the MDBs. The Assembly reiterates its appeal to the members of the World Trade Organization (WTO) to make every effort to conclude the Doha Round of trade negotiations, in a spirit of constructive solidarity especially with the low-income countries. The Assembly also calls on the WTO to examine ways to introduce greater flexibility into the negotiating framework.

11. The Assembly welcomes the work of the OECD to address the impact of the crisis, in particular in the context of the internationally agreed tax standard, and the regulation of the international financial system, and looks forward to discussing the OECD's contribution in more detail on the occasion of its annual debate on the activities of the OECD.

12. The Assembly calls on the parliaments of the Council of Europe member states that vote for the national budgetary contributions necessary for the funding of the international financial and economic institutions to exercise close vigilance over every aspect of their activities.

## B. Explanatory memorandum by Mr Sasi, rapporteur

### 1. Introduction

1. Governments in Europe and around the world are struggling to alleviate the effects of one of the worst financial and economic crises for decades, with its severe negative impact on growth, trade, investment and employment across the globe and untold social and human consequences. Among other things, the crisis has focused renewed and more urgent attention on the role and relevance of the world's economic and financial institutions and their governance, which were already under close scrutiny, not least in order to assess how far their mandates allow them effectively to help overcome the crisis and the role they should play in avoiding such turmoil in the future. The crisis has thus intensified efforts to re-design the international financial architecture, currently under the leadership of the Group of 20 major industrial and emerging countries that met in Washington D.C. on 15 November 2008 and in London on 2 April 2009 and will meet again before the end of 2009 to review progress. The fact that the G-20, a body more representative of the global economy than the G-7 or G-8, is spearheading these efforts marks in itself a major change in the international financial architecture and ensures that its deliberations will carry weight. Its membership includes the key emerging economies and represents some 90% of world GNP, 80% of world trade and two-thirds of the world's population.[2]

2. These international efforts have been likened to a "Bretton Woods II" exercise, in reference to the seminal United Nations Monetary and Financial Conference that brought together 44 governments in Bretton Woods, New Hampshire, U.S.A., in June 1944 in order to agree a strategy and institutions to promote post-war economic growth and reconstruction and international monetary stability on the basis of a fixed exchange-rate system. Today, more than sixty years after their inception at that conference, the International Bank for Reconstruction and Development (IBRD), now part of the World Bank Group, and the International Monetary Fund (IMF) retain their mandate of promoting international development and safeguarding financial stability. Although these objectives have found renewed relevance, and indeed urgency, in the present crisis, the world in which these institutions operate has radically changed, It is not surprising that their roles, which have stirred some controversy in the past, are as much debated today. Their goals, governance and operating principles have come under intense scrutiny.

3. How are these and other global economic institutions such as the World Trade Organization (WTO), the International Labour Organization (ILO), the Organisation for Economic Co-operation and Development (OECD), and the Bank for International Settlements (BIS) trying to evolve in order to meet the challenges of the financial and economic crisis and a rapidly changing world economy? What should be the role of human rights and conditionality in their policies? The Bretton Woods institutions have featured heavily in the media during the last few years; they have appointed new leaders and are in the midst of far-reaching structural reforms. This would seem an appropriate moment to offer a parliamentary assessment of the evolving framework of global financial and economic governance and its prospects for the future.

4. This report will attempt to do so, beginning with a brief survey of the factors that led to the original design and objectives of these institutions (especially the IMF and the World Bank), and to their development thereafter. It will examine the chief dilemmas and criticisms that they have faced, and the nature of their response. The report will pay some attention to the work of the World Trade Organization – a body which, although envisaged at the time of Bretton Woods and partially realised as the General Agreement on Tariffs and Trade (GATT), was not formally established until 1995, but whose credibility and purpose as regulator of the multilateral trading system is today perceived to have reached a decisive crossroads.

5. The report draws in part on the Rapporteur's fact-finding visit to Washington (1-3 July 2008) where he met, together with the Sub-Committee on International Economic Relations, representatives of the Bretton Woods institutions, the Brookings Institution, the Cato Institute and the US State Department. The Rapporteur has also benefited from debates held during his participation in the Parliamentary Conference on the WTO (11-12 September 2008)[3],the WTO Public Forum "Trading into the Future" (24-25 September 2008), and hearings organised by the Parliamentary Assembly Committee on Economic Affairs and Development.

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2. http://www.g20.org/about_what_is_g20.aspx
3. Organised jointly by the European Parliament and the Inter-Parliamentary Union.

## 2. The spirit of Bretton Woods

6. Though it is one of the most famous places in economic history, the village of Bretton Woods in New Hampshire (USA) consists only of a railway stop and a hotel – which, by July 1944, had been disused for two years. But the delegates representing 44 countries, who arrived in special trains dubbed 'Towers of Babel on wheels', were delighted by the solitude and clearly found it inspirational. For in three weeks of the UN Monetary and Financial Conference, the architecture of a new global financial order had been built. Many of the same disputes over representation and national self-interest that apply today were raging also then. However, there were common, overriding goals; to achieve them, the institutions that emerged from Bretton Woods were, quite deliberately, unprecedented in both scope and scale.

*Reconstruction and Development*

7. The International Bank for Reconstruction and Development (IBRD) – now part of the World Bank Group[4] - was intended to stimulate recovery and sustain growth, as Article 1 of its Agreement states, in the 'territories of members by facilitating the investment of capital for productive purposes'.[5] The Bank was 'to promote the long-range balanced growth of international trade and…international investment…thereby assisting in raising the productivity, the standard of living and condition of labour in their territories'. In practice, this was expected to involve lending primarily to governments for substantial projects with long-term effects. The priorities were infrastructure schemes in sectors such as transport, sanitation and electricity, and social programmes, particularly in health and education. With the Bank acting as a resource for contributing members, its management structure would resemble that of a club, governed by a representative board, where voting power was allocated to each country according to the level of its subscriptions.

*Financial Stability*

8. During the 1930s, the world's economies had endured a series of interconnected problems: in particular, a shortage of gold, exchange rate instabilities, the rapid flow of 'hot money' capital, and an inability to address balance of payments problems. This contributed to a spiral of currency battles and 'beggar my neighbour' policies, underpinning the Great Depression and the rise of fascism. So at Bretton Woods the International Monetary Fund (IMF) was established as a supervisory institution, charged with promoting financial co-operation and encouraging trade, by aligning monetary policy and maintaining currency stability.

9. IMF members would join an exchange-rate regime, with their currencies pegged against the US dollar and therefore, at the time, against the price of gold. While some scope for currency adjustment was envisaged, it would only be possible with IMF permission. The IMF would have the power to provide short-term loans to member governments with balance of payments problems, so offering, as its Articles of Agreement state, 'the opportunity to correct maladjustments… without resorting to measures destructive of international or national prosperity'. In return, members would agree to implement reforms so as to prevent a recurrence of their difficulties, and the completion of loan payments would be tied to compliance.

10. As with the World Bank, the IMF was to be structured like a club. Each member would deposit a 'quota subscription', and this would determine how much that member could, if necessary, borrow. In addition, the level of quota would determine a member's voting rights, so that control lay with the greatest contributors. Although the Bank and IMF were to be separate institutions, they were linked by the requirement that any member of the Bank should also be a member of the IMF.

*Ambitions, tensions and limitations*

11. On the one hand, the objective of Bretton Woods was to build a rules-based system to guarantee a functioning framework for international co-operation. A real effort was made to establish what Lord Keynes described in his farewell speech to delegates as 'a common measure, a common standard, a common rule applicable to each and not irksome to any'. But, given the far-reaching and unprecedented powers proposed, the effect of Bretton Woods upon national sovereignty was controversial from the start.

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4. The World Bank Group comprises five organisations: the International Bank for Reconstruction and Development (IBRD); the International Development Association (IDA); the International Finance Corporation (IFC); the Multilateral Investment Guarantee Agency (MIGA); and the International Centre for the Settlement of Investment Disputes (ICSID).

5. Full copies of the Articles of Agreement relating to the World Bank and the IMF can be found at http://www.brettonwoodsproject.org/glossary/item.shtml?x=507156

12. For one thing, the system was dominated by the great powers of the day, in particular the United States, then emerging as the leading economic force. Indeed, some have always seen Bretton Woods as a formula for US dominance, pushed through in a time of war. But it should be noted that, while the US delegation was naturally in a strong position, they were also constrained by the fear of rejection by their own Congress. Some in the US feared that the IMF would go bankrupt, with the country losing its investment. This reinforced the delegation's insistence on the supremacy of the IMF Board and on the link between voting power and quota size, despite a demand by smaller countries that each member should start off with 100 votes.

13. In fact, every delegation jockeyed for advantage. The British, for instance, lobbied hard to have the institutions based in London and were among those claiming access to IMF funds as a matter of right, while the French threatened to withdraw from the IMF agreement if their quota were not increased, worried that the newly-formed Benelux agreement might deprive them of the fifth-largest share and a seat on the Executive Board. Amazingly, each issue was resolved and perhaps only in a time of international emergency could this have been achieved so quickly. But the problems encountered vividly show why it has since been so difficult for the Bank and the IMF to reform their own structures.

14. Despite all that was agreed, one piece of the Bretton Woods vision was left aside. The International Trade Organisation was intended to champion free trade, to monitor a rules-based system and resolve disputes, so as to prevent states from resorting to protectionism. But given its sensitivity, and with no trade delegates present at Bretton Woods, this idea was deferred. Later on, negotiations took place in Geneva, with 23 countries represented, forming the basis of the General Agreement on Tariffs and Trade (GATT), and leading to a 'Protocol of Provisional Application', signed in October 1947.

15. Meanwhile, plans for an ITO were seemingly far advanced, with its draft terms agreed in March 1948. The draft ITO Charter was ambitious. It extended beyond world trade disciplines, to include rules on employment, commodity agreements, restrictive business practices, international investment, and services. But it was repeatedly rejected by the US Congress and, at the end of 1948, discarded. Even so, in the trading climate established by Bretton Woods, there was obviously a need for an 'umpire' in trade disputes, and an advocate for deregulation. So, increasingly, countries turned to the only international trade forum, the GATT, to handle such issues.

### *2.1. Bretton Woods in practice*

16. In the immediate post-war years, there were striking changes. The winding-up of the colonial empires and the onset of the cold war brought the US to an undeniable position of leadership, while the western economies most ravaged by the war recovered faster than expected, particularly with the launch of the Marshall Plan, initially administered through the Organisation of European Economic Co-operation (reformed, in 1961, into the Organisation for Economic Co-operation and Development or OECD, a body of global scope, with its current membership centred on the advanced industrial economies). So the Bretton Woods institutions shifted focus.

17. As had been envisaged, the World Bank's first customers were in Europe but by 1948 there were plans to finance a hydropower scheme in Chile. In 1950, funding was offered to Ethiopia and Uruguay, and the year after to Nicaragua and the Democratic Republic of Congo. While reconstruction remained a part of the Bank's work in response to wars and natural disasters, its remit widened to include more social sector lending, development, debt relief and governance. In time, poverty reduction was explicitly seen as the Bank's 'overarching goal'. Its motto is "working for a world free of poverty".

18. To support this, the Bank created or helped set up a number of specialized internal or affiliated agencies: the International Finance Corporation (IFC) was set up in 1956 to promote sustainable private-sector investment, and in 1960 the International Development Association (IDA) began to offer preferential loans and grants to the poorest countries. At the time, developing countries tended to have difficulty raising money and therefore carried low debt levels while the Western world had plenty of spare capital. Bank membership therefore grew rapidly: in 1954, Burma was its 57th member, while in 1964, Kenya was its 102nd, and in 1974 Western Samoa became the 124th; IFC and IDA membership also grew rapidly[6].

6. Current membership varies from 185 countries for the IBRD (the International Bank for Reconstruction and Development) to 166 for the IDA, 179 for the IFC, 171 for the MIGA (Multilateral Investment Guarantee Agency) and 143 for the ICSID (International Centre for Settlement of Investment Disputes) that all together form the World Bank Group. Some 10 000 development professionals work for the World Bank Group.

19. Meanwhile, the Bretton Woods exchange-rate system steadily unravelled. After the war, the dollar became the international reserve currency. However, the US went from being in surplus to running trade deficits, and while at first other countries wanted dollars to meet their trade obligations, it became clear that if the US attempted to correct its deficit, it would cause a liquidity crisis. If, however, it allowed deficits to continue, others would lose confidence in dollars and convert them into gold (as the gold standard allowed). US deficits did continue, partly because of the Vietnam war, and dollar confidence eroded. In 1971, with the dollar increasingly being transferred into gold, the US abandoned the gold standard.

20. This diminished the clarity of the IMF's purpose, with other states being more or less forced to float their currencies. Moreover, the growth of trade was reducing its role as a source of short-term credit, and in the mid-1970s Britain was the last developed country to draw on it. So its focus turned to the developing world's debt problems, though its requirements for country reform remained as rigorous as before.

21. By the late 1970s, borrowing had grown so rapidly all over the world that economic turmoil triggered a series of debt crises. Although much of this debt was with the private sector, the World Bank was blamed by many for encouraging this. Not only had too much credit been offered, said critics, but much of the Bank's assistance had been 'tied' to services from the West, which might not be appropriate and were often perceived as detrimental to local economies. With social and environmental issues coming to the fore, an increasingly vocal civil society claimed that the Bank had failed to observe its own policy rules in several important projects.

22. In country after country, the IMF engaged in debt-crisis management. Like the Bank, the IMF became known as apostles of the free market – bearing down on inflation, insisting on rapid liberalisation, agricultural and labour market reform, while demanding lower public spending. This approach, known as the 'Washington Consensus', culminated in the notorious phrase, 'structural adjustment', seen by many as a euphemism for external control. The developed world stood accused of insisting on policies abroad that it would not implement at home.

23. Developing countries, especially in Africa, could not always achieve such targets, nor afford to repay the short-term credits they were offered; easier terms had to be negotiated. All in all, there was a perception that the Bretton Woods prescription had lost its relevance, that the roles of both institutions were confused and that their credibility was compromised.

24. In the 1990s, the Bank released the Wapenhans Report and began a series of reforms, including the creation of a panel to investigate claims against it. Though criticism continued, there was a marked shift of policy toward the real needs of recipients. The 'Heavily Indebted Poor Countries Strategy', launched by the Bank and IMF, began a process of managed debt relief, while 'Poverty Reduction Strategy Papers' were designed to help countries build their own solutions. In 1999, both bodies made country-generated strategies the basis of all concessional lending and debt relief. Increasingly, the Bank championed social programmes, such as literacy and vaccination campaigns, and launched 'Education For All'.

25. This approach culminated in the launch of the Millennium Project, where the Bank and IMF joined forces with the UN to lead the most ambitious anti-poverty agenda ever attempted, with 15 specific goals, the Millennium Development Goals (MDG), to be reached by 2015. To meet the targets, both institutions have offered their resources, skills and expertise in tracking and reporting. At the time, the Bank's President summed up what seemed a highly successful transformation: *"Since the realignment of the focus of the Bank after the initial objectives of Bretton Woods… were met, the more recent and continuing focus has been on development and the issues of poverty and the issues of sustainable development."* [7]

### *2.2. Legitimate and relevant? The Bretton Woods institutions today*

26. More than halfway through its implementation period, the progress of the Millennium Project is patchy. While most of the targets set are unlikely to be attained, and not all countries have reached the aid commitments made at Monterrey[8], it is fair to say that progress has been made, and the Project itself has helped to focus activity and resources. Moreover, the boom in world trade and a concerted programme of debt relief that preceded the present crisis helped to cut structural poverty in many areas even if the 2008 hike in

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7. Mr James Wolfensohn at the Bretton Woods Committee's Annual Meeting in Washington DC, June 1999, quoted in *The International Monetary Fund and the World Bank: the challenges ahead* (Rapporteur: Mr Alfred Gusenbauer), Assembly Doc. 9478, 3 June 2002, § 23.

8. The Monterrey Consensus was born with the UN-led International Conference on Financing for Development in 2002. It offered six priority axes for action: mobilising domestic financial resources for development; pooling international resources for development (foreign direct investment and other private flows); promoting international trade as an engine

energy and food prices had the opposite effect on some countries and the present recession will hit the developing world very hard. Indeed, its probable impact on growth, trade and aid make it likely that the MDG timetable will suffer a serious set-back. This puts the Bretton Woods institutions under further pressure to step up their support for the Millennium Project or face further criticism.

*An austerity package for the IMF*

27. With the present crisis the IMF has rediscovered its role as a financial fireman. But previously, many emerging economies had benefited from strong growth in trade and high commodity prices and had large foreign currency reserves to rely on. The IMF's major clients (such as Brazil and Argentina) had been paying off their debts to the Organisation early. In a world of globalised capital markets to cover the financing needs of more and more countries, there were fewer demands on the loan capacity of the IMF. Since its operating budget is traditionally financed from profits on its loans, the Fund had a budget crisis of its own. At the end of August 2008, the IMF had a lending capacity of $250 billion, not all of it rapidly usable. Its resources were being stretched because of the current and foreseeable demands on them arising from the financial and economic crisis. One of the main issues facing the IMF was how to strengthen its financial capacity and provide funds quickly for crisis management and prevention. To this end, a new Short-Term Liquidity Facility (SLF) was set up in October 2008 to help countries with strong economic fundamentals and domestic policies to face short-term liquidity shortages. The SLF was superseded in March 2009 by the Flexible Credit Line (FCL) with the same objective. Mexico and Poland are the first countries to benefit from such precautionary lending. Indeed the whole IMF lending framework has been revamped. In addition, at their meeting in London on 2 April, the G20 leaders agreed that the IMF's resources should be increased by $500 billion to $750 billion, and that it would be allowed to issue $250 in new Special Drawing Rights (SDRs)[9] to increase global liquidity. Pledges so far (at 7 May 2009) have been made by Japan, the European Union and the United States each for $100 billion, Canada and Switzerland for $10 billion each, and by Norway for $4.5 billion, amounting to a total of $324.5 billion, leaving $175.5 billion still to be raised to reach the additional $500 billion required. The G20 countries that have not yet pledged should be encouraged to do so.

28. In the past, the Fund's leadership had appeared reticent to push changes through. Regarding the selection process for choosing the managing director, some questioned whether Europe should retain its informal right to the post. The 2007 leadership race showed an array of first-rate candidates from all over the world and the gap between the diversity of talent potentially available and the limited choice that was actually on offer, thus emphasising the anachronistic approach to the Fund's governance. Yet an excellent European candidate was finally selected. It is now time for European countries to open up the selection process to a wider range of deserving candidates.

29. The present Managing Director, Dominique Strauss-Kahn, (who took office on 1 November 2007) seems to understand all this and to have been aware, right from the start, that the nature of the race could unfairly tarnish perceptions of him. Accordingly, he displayed a degree of enthusiasm not seen at the IMF for some time, travelling to meet shareholder governments, pledging to serve a full term and campaigning as if he were in genuine contest for the job. Since taking office, he has been equally vigorous and maintained a high media profile. Meanwhile, having told the IMF board that the Fund's 'very existence' is at stake, he has moved to reform its management structures and redefine its role in the world, stressing the need for both legitimacy and relevance.

*Relevance*

30. The IMF reform process could consolidate its comparative advantage in strengthening the links between real and financial sector developments, and between national economies and the global economy. The Fund's continued top priority is to help members address their economic and financial vulnerabilities. Responding to liquidity shortages in several countries affected by the financial crisis, the IMF has arranged loans for Armenia, Belarus, Georgia, Iceland, Hungary, Latvia, Mexico, Pakistan, Poland, Romania, Serbia and Ukraine, thus complementing emergency interventions by central banks (coordinated by the Bank for International Settlements). Moreover, IMF policy advice remains essential in helping countries to improve

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for development; increasing international financial and technical cooperation for development; increased attention to external debt and debt relief; and enhancing the coherence and consistency of the international monetary, financial and trading systems in support of development.

9. The SDR is the IMF's unit of account, made up of a fixed basket (revised every five years to take into account the changing importance of the various currencies in the world trading system) of US dollars, euros, pounds sterling and yen, expressed in USD at the current exchange rate. Recently, China has proposed that it be adapted to become a reserve currency in place of the USD.

regulatory and supervisory systems that failed to prevent the escalation of financial risk. Developing countries can learn from the risk management and regulatory failures of major economies, by building systems that shield them from the risks of non-transparent instruments and excesses in lending.

31. The IMF provides an in-depth fresh look into the state of financial markets and its work to stabilise financial systems in its *Global Financial Stability Report* published twice annually, in spring and autumn. To provide practical assistance and identify vulnerabilities in individual countries and internationally, the IMF has stepped up its development of new analytical tools, such as the Risk Measures Project, Financial Stability Models, and a series of 'stress tests', while the preparation and delivery of country assessments and updates under the joint IMF/World Bank Financial Sector Assessment Program has been accelerated. Whilst calls had been heard for the IMF to assume a major role in a global early-warning mechanism, the IMF regretted that its members paid little attention to its warnings before the sub-prime crisis exploded. We also know that a similar early caution by the OECD was largely ignored. So the decision of the G20 leaders at their London Summit on 2 April 2009 that the IMF, in collaboration with the Financial Stability Board (successor to the Financial Stability Forum – see section VII below), should "provide early warning of macroeconomic and financial risks and the actions needed to redress them", is to be welcomed.

32. Anxious to remain active in the poorest countries, the Fund is developing its role in 'multilateral surveillance', examining how financial turmoil can leak from one country to another, and acting as an economic umpire. This also means getting involved in currency disputes amongst its largest members. With the enthusiastic backing of the US, the Fund has been given more scope to scrutinize and to report on exchange-rate policies that it feels are harmful to others. A country such as China, in the Fund's view, now has sufficient economic muscle and should not simply set an exchange rate to suit its own political purposes. This discussion is welcome and timely. It is noteworthy that the G20 leaders, at their London Summit on 2 April 2009, agreed that "We will conduct all our economic policies co-operatively and responsibly with regard to the impact on other countries and will refrain from competitive devaluation of our currencies and promote a stable and well-functioning international monetary system. We will support, now and in the future, to candid, even-handed, and independent IMF surveillance of our economies and financial sectors, of the impact of our policies on others, and of risks facing the global economy."

*Legitimacy*

33. The role of umpire is hard to play. Developed countries have a long history of ignoring unwelcome advice from the Fund, and there is little reason to think that booming developing countries will behave differently. China has been infuriated by the new emphasis on objective currency analysis, seeing it as a US-inspired action against it. Pleasing both sides in such a dispute has proved difficult. The IMF would need a stronger advisory role, or even some form of quasi-judicial powers, perhaps along the lines of the WTO, to play a determining role in the area of currency disputes.

34. Further to an earlier interim grant of extra votes to China, Mexico, Turkey and South Korea in the IMF (made in 2006), a broader redistribution of power was agreed in April 2008 as part of quota and voting structure reform. The reform aimed to make quotas more responsive to members' evolving weight in the world economy and increase the voice of low-income countries in the IMF's decision-making. Alongside a single more transparent formula[10] for allocating quotas, the reform increases nominal quotas for 54 countries (by 12 to 106%) and the voting power of 135 countries, as well as trebling votes of the smallest members of the IMF (many of which are low-income countries). The largest emerging countries – China[11], South Korea, India, Brazil and Mexico – will benefit most from this reform in terms of voting share. An Alternate Executive Director was added for the two Executive Directors representing Africa at the Executive Board. Further rebalancing of quotas and votes should henceforth take place every five years. The G20 leaders endorsed these reforms at their London Summit on 2 April 2009. Given the discontent amongst the fastest-growing members, change is urgently needed. In September 2008 IMF Managing Director Mr Dominique Strauss-Kahn announced the appointment of a committee of eminent persons chaired by Mr Trevor Manuel, South African Minister of Finance, to assess the adequacy of the Fund's management and decision-making framework. This committee's assessment was made available on 24 March 2009. According to Mr Strauss-Kahn, "The committee proposes a package of measures to enhance the Fund's legitimacy and effectiveness, including the formation of a high-level ministerial council to foster political engagement in strategic and critical decisions,

10. Replacing five formulas used until then.
11. Yet even after this move, China is left with fewer votes than the Benelux countries, whose influence once so worried France.

acceleration of the quota and voice reform begun last year, a broader mandate for surveillance, clearer lines of responsibility and accountability between various decision-making entities in the Fund, and the introduction of an open, transparent and independent of nationality selection process for the Managing Director."[12]

35. Parliamentary oversight also contributes to institutional legitimacy. The Parliamentary Network on the World Bank (PNoWB) allows parliamentarians to better understand how this institution functions and to make proposals for its work. As the IMF has no such equivalent for dialogue with parliamentarians, it should be encouraged to seek more interaction with national parliaments in a manner that it deems compatible with its mandate. This should include regular scrutiny of the activities of the Bretton Woods institutions by the Assembly in accordance with the terms of reference of the Parliamentary Assembly Committee on Economic Affairs and Development.

36. At an IMF annual meeting in 2007, the Group of 24 developing countries argued that the regulatory focus should be turned back upon wealthy members, declaring that it was failings here that lay behind current global instability. This call was taken up by the Deputy Governor of the Bank of China in October 2008.[13] There has also been a hostile reaction from many to a call by the US for the Fund to address the growth of sovereign wealth funds. Together with the OECD, the IMF has nevertheless developed a voluntary code of conduct to encourage good practice and transparency.

37. Winning approval for reform requires the Fund to put its own operations in order. It has therefore undertaken an austerity package worthy of one of its own prescriptions, suspending refurbishment work at its headquarters, decreasing expenses and reducing staff by around 15%, or some 400 members. It has also considered suggestions that it might charge for its technical assistance, particularly in the case of rich countries, and could sell some of its substantial gold reserves, as suggested by a panel of experts in 2007, to create an endowment designed to ensure the long-term funding of expenses.

38. The overhaul of the management and decision-making structure, lending capacity and framework, surveillance policy and other ongoing reforms will transform the IMF, but also require support of members, particularly those whose relative influence is declining. While retaining their support, the Managing Director must do enough to give the Fund authority and legitimacy amongst developing countries, and to give fair weight to the fastest-growing economies. It is a difficult balancing act, but there is widespread agreement that a good start has been made. The decisions made by the G20 leaders at the London Summit of 2 April 2009 have certainly resulted in a strengthened global role for the IMF. The Council of Europe member states should endorse the Fund's efforts to achieve such meaningful reforms and pledge their support for this process of radical and unprecedented change.

*The World Bank's challenges: more than trouble at the top?*

39. The appointment of Paul Wolfowitz as President of the World Bank in 2005, after serving as Under Secretary of Defense in the US Government, highlighted the dominant role played by the United States in the Bank. The lack of internal accountability and transparency under his Presidency is often invoked by the Bank's critics. Following a sustained revolt by staff and shareholders, Mr Wolfowitz resigned in May 2007, and although hopes for a speedy reform of the selection process were dashed, with the US nominating his successor Robert Zoellick, it seems that substantive management change is now possible. In a statement for the consideration of the Board, the Bank's Independent Evaluation Group has set out what it considers the key areas of institutional reform needed, with a focus on better management controls, more transparent governance, and the improvement of internal checks and balances. A crucial element of this is the selection of the Bank's President using open and objective criteria.[14] The Rapporteur supports the principles outlined in the statement, and welcomes the agreement to the principle of a merit-based selection process for the Presidency reached at the Bank's October 2008 annual meetings, with nomination open to all 185 member states.

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12. *IMF Managing Director Dominique Strauss-Kahn Welcomes Experts' Report on Fund Decision Making*, IMF Press Release No. 09/88, 25 March 2009

13. Speaking at the 18th Meeting of the IMF International Monetary and Financial Committee on 11 October 2008, Mr Yi Gang said: "Under the current international monetary system, the lack of effective surveillance of reserve currency issuing countries and their weak financial policy discipline has resulted in excess global liquidity and disorderly capital flows, increasing the difficulties for other countries in preserving macroeconomic stability and boosting growth while posing serious risks for global financial and economic stability. The current financial crisis has shown that this is harmful for reserve currency issuing countries too. The Fund must draw lessons from the crisis and take corrective measures to enhance its surveillance over the developed countries."

14. http://www.worldbank.org/ieg/issues_for_review.pdf

40. Such reform had already resulted in the appointment in June 2008 of a Chinese scholar, Justin Yifu Lin, as Senior Vice President and chief economist, a top job in the institution. In February 2009, following the Bank's October 2008 Annual Meeting, the World Bank's Board of Governors also approved a first phase of reforms to increase the influence of developing countries within the World Bank Group, including adding a third seat for Sub-Saharan Africa to allow developing countries a majority of seats on the Executive Board, and expanding the voting and capital shares of developing countries to 44% of total. These reforms are now subject to a vote by the 185 member states. It should be noted that nearly two thirds of Bank staff and 42 % of all Bank managers are from developing countries, and that 7 of President Zoellick's 9 senior appointments have been from developing countries.

41. Several groups are working on proposals for World Bank reform. One of these groups is the commission headed by former Mexican President Ernesto Zedillo. The 'Zedillo Commission' is an independent, high-level commission of 12 members from current or recent senior international positions, from both developed and developing countries. The commission was created by World Bank President Zoellick; and is tasked with making recommendations on how the institution is governed so that it can better fulfill its mission of overcoming global poverty. Former World Bank Chief Economist Joseph Stiglitz chairs a 'Commission of Experts on Reforms of the International Monetary and Financial System' appointed by the UN General Assembly President, Miguel D'Escoto'.

42. Although press reporting was dominated by the drama of Mr Wolfowitz's departure, it is worth remembering that his appointment had been partly due to concerns by the US – then the Bank's largest donor, but owing around $300 million in outstanding pledges – about its direction. Before the financial and economic crisis, and like the IMF, the Bank was faced with fundamental questions in an increasingly prosperous and interconnected world:

– What was the purpose of its institutional lending? Poverty levels had fallen, particularly in Asia, and many governments had been able to borrow on capital markets; yet they were the Bank's most lucrative customers and tended to achieve the best results: could the Bank cope without them?

– With an ever-increasing multitude of other donors, what was the Bank's role in international aid? Should it complement better various forms of donation, such as presidential plans, millennium accounts and philanthropic global funds? Increasingly, some emerging economies, hungry for influence and resources, were offering aid even as they also borrowed money from the Bank.

– When the Bank faces competitors in every sphere, what sort of policy balance should it strike? For some, it was still too tough, too insensitive to local and environmental needs. For others, its desire to avoid confrontation reduced its effectiveness: for instance, was consensus the right way to tackle corruption? Both viewpoints questioned whether the Bank was the best means for donors to get results.

*The Bank's best customers*

43. Historically, the Bank has done its most productive business with the group of some 86 middle-income countries (MICs), such as Brazil and the Philippines. These countries, accounting for just under half of the world's population and home to one-third of people across the globe living on less than $2 per day, with GDP per head from $1,000 to $6,000 per year, have tended to perform more strongly in poverty reduction and have been better at keeping up repayments. It is not surprising that this group has tended to account for almost two-thirds of the Bank's lending, and half of its administrative budget.

44. Before the present crisis, such countries had used their growing wealth to pay off old loans. In fact, over the period 1995-2006, they repaid an annual average of $3.8 billion more than they had borrowed and by 2005 the contribution of World Bank finance to the national investment of MICs had more than halved from the level a decade earlier, to just 0.6%.

45. The Bank's Independent Evaluation Group (IEG)[15] reported in 2007 that the trend to lower business was, in many ways, a sign of success. In general, middle-income countries were growing faster than any others in the world: indeed, five countries had moved out of this group since the mid-1990s, while several – most notably China – had joined it. Crucially for the Bank, many of them had improved their national balance-sheets to the point where they could easily raise money in the financial markets. The result was that, in the period 2001-2006, 31% of Bank lending to MICs went to countries that had investment-grade credit ratings, while 62% went to countries with a rating below investment grade, and only 7% to countries which had no credit rating and therefore little access to private capital.

15. World Bank IEG, *Development results in Middle-Income Countries. An evaluation of the World Bank's support*, 2007

46. The fundamental question as to whether, with less and less need in MICs, the Bank could still be useful in these countries, has of course been answered by the financial and economic crisis. In reply, the IBRD is set to almost triple its lending from about $13.5 billion in 2008 to an estimated $33-35 billion per year for the period 2009-2011.

47. Over the years, the Bank has claimed that the best thing it lends is its expertise. Recently, it has found that many countries would rather do without such advice, unless the other terms are extremely attractive. So how can its skills be made more attractive? Some commentators have suggested separating World Bank loans from the advice of its staff and allowing countries to choose either or both. As Nancy Birdsall, who leads the Center for Global Development, puts it *"lending and grant-making at the country level should not be the end-all and be-all. It should be the vehicle for advice and constant rebuilding of the bank's knowledge".*[16] Nurturing its own skills base might allow the Bank to establish a more clearly focused and differentiated range of investment and development tools, like a private consultancy.

48. The Bank may not be ready to embrace such a drastic solution at this stage, not least because of its financial implications. According to the 2007 IEG evaluation of a range of projects and the views of borrowers[17], the Bank should make the most of its expertise by better internal co-operation and a coherent use of best practice, as well as by producing plans that are collaborative and specific to local needs, rather than general statements of principle. Overall, while the majority of programmes achieve their objectives, they often do not address underlying policy reforms, and incentives and procedures encouraging regional co-operation are lacking. Nevertheless, the report noted that most country strategies had focused on sectors and themes important for countries' development needs, including promoting growth. Moreover, your Rapporteur finds the Bank's role in coordinating the actions of ODA donors and its involvement in the preparation and implementation of country strategies for poverty reduction highly useful. Moreover, whatever its shortcomings, it does have some influence in shaping governance and good practice in major projects, even when it has a relatively small financial stake. Financial markets are reassured by its presence, and it can be helpful in gaining the confidence of local authorities and dealing with local bureaucracies.

### *2.3. Local operations – key challenges*

49. If the World Bank's function as a bank is to yield value, it will increasingly have to improve the perceived effectiveness of its lending. Responsible lending policies are an essential foundation. In an assessment published in 2005, the IEG was critical of the Bank's project selection mechanism, as well as its ability to monitor results and measure performance. Ensuring that financially-efficient and ethically-responsible processes are in place, and convincing people that they are so, is vital and can be made easier by closer local co-operation and by more transparent governance. In addition, there are three key areas where performance could be improved: corruption, inequality and the environment.

50. *Tackling corruption* is no easy task, as the Council of Europe can affirm, and the problem is compounded when wealth is growing quickly. In the poorest countries, Bank policies and decisions – for better or worse – can alter the fate of a national economy. Here, the Bank cannot help having a *political* role and voice. But in a booming middle-income country, the Bank's best chance of influence may be through advocacy and example, and by the steady osmosis of its principles into local political debate. If there's too much pressure, the borrower can raise money elsewhere.

51. Many feel that the Bank should be stricter. When Paul Wolfowitz began suspending loans relating to projects or governments where corruption was suspected, he provoked a storm of controversy, not least from within the Bank itself. These suspensions may have been abruptly introduced and disruptive to years of work, but there were serious grounds to make them. When so much of the Bank's work relates to nurturing local efforts that it does not directly control, it may sometimes need to publicly uphold its own standards by saying no. Although the borrower might be able to replace the Bank's capital, denunciation by such a prestigious institution has a strong deterrent effect. Moreover, in an age when information is easily available, the Bank's own reputation is at risk.[18]

52. Some commentators suggest that the most practical approach is to hold recipients more clearly accountable for the outcomes generated and, if needed, be ready to stop further funding. But the effect of the last anti-corruption drive was so damaging that the Bank's management have to be cautious. Earlier attempts

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16. See http://www.cgdev.org. The quote above is featured in an article "Wolfowitz is not the World Banks' biggest problem" first published in Time, 3.5.2007.
17. World Bank IEG, *Op. cit.* , 2007, p. 20.
18. The 'ifiwatch' website, for instance, runs a blog that allows readers to post examples of project-related corruption they know of, see http://www.ifiwatchnet.org/?q=en/featured_blog/369.

to increase the power of the Bank's internal investigations unit aroused such anger that a new team had to be appointed to investigate them! However unfairly, previous policy changes were seen as a covert form of support for US foreign policy, with formal protests by Kenya's opposition leader about its perceived bias.

53. In this context, mention should be made of the Volcker commission, which reviewed the Bank's anti-corruption efforts in 2007, and the steps taken by the World Bank following this review. In January 2008, the Bank announced that it would implement the recommendations of the Volcker Report to strengthen its Department of Institutional Integrity (INT), which investigates fraud and corruption. The recommendations include creation of an independent advisory board composed of international anti-corruption experts to protect the independence and strengthen the accountability of the INT; the creation of a preventive services consulting unit to help Bank staff guard against fraud and corruption in Bank projects; and raising the rank of the head of the INT to Vice President. The first INT Vice President was appointed in May 2008, and the Independent Advisory Board was announced in September 2008.[19]

54. *Inequality* is an even more difficult issue for the Bank to address. Globalization has contributed to astonishing wealth gaps between countries: the average income in Switzerland is now more than 400 times greater than that in Ethiopia and it is safe to say that, at a macro level, every project supported by the Bank should aim to mitigate this. Another critical trend, which perhaps needs to be more effectively addressed, is the widening disparity within countries. This is glaringly apparent in the middle-income group where more than half of borrowers became more unequal in the period 1993-2004[20]. Yet even this is not straightforward: the Bank's avowed mission is to address poverty, and confronting relative deprivation can be seen as an attack on relative advantage. The Bank must avoid adopting any stance that might be seen as ideological, especially if viewed as hostile to the sections of society it works with.

55. The 2007 IEG report describes the difficulty of tackling inequality within a state.[21] In China, for instance, local beneficiaries are responsible for loan repayment; problems arise in Russia, Turkey and Ukraine, where governments lack a regional approach despite a widening inequality gap. It is still open to question how the Bank can develop effective instruments to address this. However, persistent inequalities in rapidly developing countries offer reasons for continuing to support local projects, even as countries seem to have become wealthy overall. Despite many specific constraints on work relating to race, religious and gender inequality, social programmes are showing results. Education remains the top priority, along with health services and a shift in employment from the agricultural sector.

56. *Environmental issues* are important to the Bank which is one of the world's largest backers of biodiversity projects and currently provides around $11 billion to projects with clear environmental objectives. In India (Karnataka state), for instance, it has helped farmers to make dams, collect rain and protect soil from monsoons. These efforts have raised crop yields by 24% and household incomes by two-thirds, while boosting the local ecosystem. But while the Bank seeks to ensure that all projects it supports are environmentally sound, the issues involved are complex, often technical and require careful local judgments. If poverty reduction and environmental protection may in the long term be synonymous, short term needs often diverge. Environmental protection may amount to telling poor countries what they can and cannot do. Sometimes it may increase inequality: in Congo, the Bank's support for 'avoided deforestation' via local payments has been criticized for provoking wealth disparities among local tribes. Two projects recently in the headlines show some of the dilemmas involved:

– There has been a widespread welcome for the Clean Technology Fund under the Climate Investment Funds, administered by the Bank, implemented by the Multilateral Development Banks (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank and the World Bank Group) and funded by Australia, France, Germany, Japan, Spain, Sweden, the UK and the US. At the same time, many see a paradox in the Bank's proposal for a large coal-fired power-station in Botswana. The Center for Global Development has estimated that a solar power installation would be more rational and clean, and they urge the Bank to immediately implement an explicit carbon accounting charge for all their energy projects (despite the fact that developing countries have voiced discomfort with this approach). This seems reasonable but should Botswana not have the right to give work to its miners and use its own coal?

– Controversy has grown over the social effects of the Nam Theun 2 dam in Laos, where efforts to ease the environmental impact are lagging. According to the pressure group International Rivers, which has opposed the dam from the start, the $16 million social budget is inadequate to compensate more than

19. Cf summary of the steps taken by the World Bank, in press release at http://go.worldbank.org/TD8TR47PO0
20. World Bank IEG, *op. cit.*, Fig. 3.7., p. 25
21. *Ibid*.

120,000 villagers downstream for loss of fisheries, "let alone to provide livelihood alternatives and flood and erosion protection". However, Laos is one of Asia's poorest countries, and the dam is key to becoming a "battery" for the region. The Bank, a key backer, has admitted the social and environmental challenges but feels that the project has provided significantly better housing, schools, healthcare and roads to the affected people.

57. These examples may make one wonder about the role of *human rights* in lending policy. It is important to point out that neither of the Bretton Woods institutions are rights-based bodies; in fact, the Bank's Articles state that, in all its decisions, "only economic considerations shall be relevant." Some believe that this is an unacceptable restriction. The Bank maintains that its 'economic and social approach to development advances a comprehensive, interconnected vision of human rights that is too often overlooked'.[22] Because its lending decisions are based on the quality of the project, and its effectiveness in reducing poverty, the Bank feels that it has been able to escape the vagaries of short-term political or ideological considerations which can be very costly and often have little to do with relieving poverty. It can, in other words, be objective. The Bank denies that it views civil and political rights as unimportant to development and suggests that it can 'make its greatest contribution to development - and simply is able to help more people - by continuing to focus on the important work of economic and social development'.[23]

58. *Labour standards* are a good example of the type of rights-related issue that the Bank seeks to address. Its labour policies aim to reflect the key elements of social development articulated in the 1999 Copenhagen Declaration on Social Development, and have become an integral part of its poverty-reduction strategies. While it believes that the private sector must generally be the engine of employment creation, the Bank affirms the need to protect fundamental employment rights. Hence its guidelines for low-income countries require the consideration of core labour standards in formulating any Country Assistance Strategy and in subsequent performance measurement.

59. To underscore this, the Bank supports a range of labour-related initiatives, such as the Communities and Small-scale Mining (CASM) initiative launched in 2001 - a multi-donor programme that aims to improve the circumstances of those working in small-scale mines. It has also integrated labour standards into its concessional lending practices: the IFC's operations policy addresses all four core ILO labour standards (forced labour, child labour, non-discrimination, and freedom of association and collective bargaining) and requires a comprehensive approach to labour and working conditions, as part of any funding agreement. The Bank participates in specific social development schemes, such as training for garment factory supervisors in partnership with 'Better Factories Cambodia,' the ILO's local programme.

60. Finally, it is worth looking at the degree to which the Bank and the IMF encourage reform in borrower countries. While the notion of *'structural adjustment'* still features in some of the debate, the Bretton Woods Institutions are today emphasising national ownership of reforms, including alignment with existing national development strategies. Nevertheless, a report by the IMF's Independent Evaluation Office, released in January 2008, criticised the continuing overuse of 'structural conditionality'. Having reviewed the Fund's lending operations between 1995 and 2004, they found an average of 17 structural conditions per agreement. While the report did not discuss the nature of the conditions in detail, it noted that their effectiveness was relatively low, with around 54% compliance achieved, and less than 33% compliance for what it called reforms of 'high structural depth'.[24] This illustrates the importance of national ownership of reform and the investments, loans and conditions in support of these reforms.

61. Clearly, it is legitimate for a public body to attach conditions to a loan, but they need to be reasonable, appropriate and realistic. One of the World Bank's key mechanisms for achieving this is its 'Good Practice Principles' (GPP) for the application of conditionality (Ownership, Harmonization, Customization, Criticality, and Transparency and Predictability) which have been widely embraced by aid providers. This seems to have yielded results, as the Bank has sharply reduced the number of disbursement conditions since the late 1990s. In fiscal years 2007 and 2008 disbursement conditions had declined to about 9-10 per operation (from a level of 31-35 per operation in 1995). A report by Eurodad[25] claims that the real picture is different because of the practice of bundling several 'conditionalities' together, but the World Bank reports that the relatively rare use of bundling would not substantially alter the number of conditions. According to Bank analysis, sensitive reforms

22. See http://www.worldbank.org/html/extdr/rights/hrintro.htm
23. *Ibid*.
24. See http://www.ieo-imf.org/eval/complete/eval_01032008.html
25. "Untying the knots: how the World Bank is failing to deliver real change on conditionality" (Eurodad, November 2007).

(defined by the Bank[26] as privatization, price liberalization, subsidy reforms, utility price adjustments, trade reform, and user fees) have been used in less than one-third of operations during Financial Years 2007 and 2008.

62. It is hard for a layman to judge the merits of such arguments but it is clear how hard a job it is for a public institution to strike a balance between the interests of its investors and the needs of its borrowers, while retaining the confidence of civil society. By contrast, private creditors do not care how their money is used, as long as it is repaid. This may mean that poorer countries, who cannot raise capital elsewhere, are more subject to conditions. It is worth bearing in mind that without involvement by the Bretton Woods institutions, issues such as the environment and inequality would receive less attention than they do now. This in itself justifies their continued lending and continued efforts to do it more consensually.

63. In the worsening global economic situation that prevails in 2009, however, there are even more immediate reasons that justify continued, indeed increased, lending and grants by the Bretton Woods institutions. The world's developing economies are particularly vulnerable to economic shocks. As capital markets have dried up, trade has shrunk and commodity prices have fallen, many of today's middle-income countries and certainly the low-income ones find that they have a renewed need for the Bank's help. That is why the World Bank has appealed to donor countries to commit 0.7% of their economic stimulus packages to a Vulnerability Fund for assisting countries that lack resources for such fiscal plans. Donors could channel such resources through the UN, the World Bank or other development banks, thereby using existing, well functioning development mechanisms to deliver funds quickly, transparently, and safely. The World Bank has identified three main priorities for vulnerability fund investments: safety nets,[27] infrastructure and the financing of small and medium-sized enterprises and microfinance institutions. Not only that, but the IBRD has announced new commitments of up to $100 billion over the next three years, with lending in 2009 increased to $35 billion compared to $13.5 billion in 2008. In December 2008 the Bank approved a $500 million loan for structural reform in Ukraine, and has agreed to help India with $3 billion in additional investment. Ironically, as for the IMF, it is adversity that has renewed confidence in the Bank's role. This goes not only for loans but also for concessionary aid disbursed by the Bank's aid agency, the IDA.

64. Among other things, Mr Zoellick's efforts to restore confidence among staff and shareholders since he was appointed President of the Bank resulted in a major increase in contributions for the IDA during the funding replenishment round finalised in December 2007 for the period ending 30 June 2011 (IDA 15). With so many other routes for donation and shortfalls in previous pledges, notably by the US, the IDA had been in serious need of stronger funding and this latest negotiating round had been seen as a test of the Bank's credibility. The negotiations concluded with $25.1 billion committed - an increase of 42% over the previous round. Behind this vote of confidence, it was notable that Germany, one of the countries most concerned about the former President's approach, gave more than $2 billion, while Britain pledged $4.3 billion, becoming the largest single donor. Among the 45 contributors were debut appearances by several middle-income countries, such as China, Egypt and Latvia. The donor contributions of $25.1 billion enabled the Bank to replenish IDA 15 with $42 billion in total. Under the leadership of Mr. Zoellick the World Bank has improved its crisis response capacity, and the Bank has established a new facility to rapidly provide $2 billion worth of aid to the poorest countries from the $42 billion IDA 15 fund. Priorities will be safety nets, infrastructure, education and health. As part of the World Bank's new way of doing business, approval processes are being speeded up. The Bank launched a $1.2 billion Global Food Response Program (GFRP) in May 2008 to speed assistance to the neediest countries, and loans were processed on average in under two months.

65. To encourage contributions, Mr Zoellick had engineered a $3.5 billion transfer – partly from the IFC (which had retained earnings of $11.7 billion in 2007 and $13.2 billion in 2008) and partly from its loan operations to middle-income countries – to the IDA, which now has capital worth about a third of its lending. So the Bank has 'put our money where our mouth is' and also reduced its own charges and fees. It has been suggested that there should also be a re-evaluation of customers, with some countries (such as Vietnam and similar) currently benefiting from IDA aid being able to accept loans on a more commercial basis.

66. As for the IFC's response to the crisis, it has increased its support for the private sector in developing countries through the launch or expansion of initiatives designed to help microfinance institutions experiencing difficulties, including a $500 million Microfinance facility; through doubling its Global Trade Finance Program to $3 billion over three years and mobilizing funds from other resources, including a $1 billion pledge from

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26. See www.worldbank.org/conditionality for definitions, findings and consultation process, especially World Bank (2007), *Conditionality in Development Policy Lending*.

27. There is also support for the creation of a "Rapid Social Response Fund" to help developing countries to provide social protection for the poorest and most vulnerable (cf . speech by Mr Douglas Alexander, UK Secretary of State for International Development, 24 February 2009.

Japan; to help recapitalise banks in developing and middle-income countries, including Central and Eastern Europe, through a $3 billion Recapitalisation Fund created in December 2008; to prop up privately funded infrastructure projects in financial difficulty; and to step up its advisory services in the field of finance.

67. According to Mr Zoellick, Central and Eastern European countries need $120 billion to recapitalise banks in difficulty following the recall of liquidity by Western banks. The World Bank is therefore working with the European Bank for Reconstruction and Development (EBRD) and the European Investment Bank (EIB), as well as the IMF and the EU and its member states to help restructure and recapitalise. As part of a joint package with the EBRD and the EIB, the World Bank Group will provide support of about €7.5 billion to help the Eastern Europe banking sector and to fund lending to businesses hit by the global economic crisis.

68. A further World Bank objective, unrelated to the crisis, is to 'unify' the rapidly expanding universe of development aid. With more than 280 donors, international efforts are incredibly fragmented. This takes the heaviest toll on countries with the least bureaucratic resources: Tanzania, for instance, received 542 donor visits in 2005, while Vietnam had 791, and India has decided to restrict the number of aid partners it works with. The Bank can act as a common platform from which others can operate: it does so in Afghanistan, where reconstruction of rural roads and bridges is supported by a multilateral fund that it administers. The Bank is doubtless less troublesome to work with than many donors, less prone to split aid into tiny projects, or to bypass a government's own budgetary systems.

69. There are also problems that stem from a lack of overall planning. One is the issue of 'donor orphans', whereby aid is focussed on favoured countries with colonial connections, or where there is commercial advantage to be gained - to the detriment of those who have least to offer and are therefore often in the greatest need. Another is that of 'sector orphans': for while there are many sources of income for eye-catching causes, such as Aids and Malaria, that have traction in the media, there is a danger of overlooking important areas such as hospital refrigeration or sewerage.

70. Recent success will only increase the Bank's need for transparency, and objective measurement of the results of its work. This is often difficult: for instance, the Bank supported the construction or repair of more than 22,000 classrooms in the 12 months to June 2007, but has little means to know how much children are learning there. Systematically, the Bank is seeking to improve its own indicators for measuring progress and should not allow its recent traumas, or its current success, to slow the drive for closer self-scrutiny of results.

### *2.4. What future for the Bretton Woods approach?*

71. The Bank faces questions about who its customers should be. By the middle of 2007, the Bank's cumulative lending to China was nearly US$42.2 billion in 284 projects. With 70 of these under implementation, China's portfolio is one of the largest in the Bank[28]. As China becomes a World Bank donor itself and competes with the Bank as a provider of aid in many developing countries, can this be right? This report has already suggested several reasons why such an unprecedented situation may have merit – but it will be increasingly difficult to defend among the tax-payers of the developed world, especially when China is using much of its aid money to compete with those countries for influence and natural resources. Moreover, continued assistance can even hold back some developing economies, reinforcing dependency, discouraging the emergence of local accountability, and preventing them from doing things for themselves.

72. Such questions have been debated at the Asian Development Bank (ADB) whose largest borrower and third largest provider of funds is China (in 2007, it even undercut the ADB in lending money to improve the water supply in Manila, this Bank's own base). An internal report has suggested that the ADB should curtail lending and focus on being an adviser and coordinator for the region. While the report advocated continued infrastructure funding, pointing out that Asia needs to spend up to 4.7 trillion dollars in this sector over the next decade, this sum is scarcely more than Asian governments have recently held in their own reserves.

73. Unsurprisingly, the ADB has found resistance to its ideas amongst the regions poorest countries, such as Cambodia - and certainly, there are still countries in all parts of the developing world that more or less rely on aid. But many of the richer developing countries also have doubts: for them, institutions such as the ADB and the World Bank still have a role in enabling long-term financing, particularly in vast and complex projects such as infrastructure. Although these governments have in recent years been able to use the markets to raise some of that money, they usually try wisely to diversify their borrowing. Another reason for caution is that financial markets more or less expect their borrowers to be IMF/World Bank members.

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28. The Bank has launched a very interesting operations map (http://geo.worldbank.org/). This enables the user to review country data and details of current projects. Currently, it links to other sites such as the Millennium Project atlas; development indicators are likely to be added soon.

74. There is a similar story in Latin America, where the Bank, like the IMF, has over the years made much of its money. Now, only a few countries in the region are poor enough to qualify for its aid; most are borrowers, and in 2006 the Bank earned $1.7 billion in interest and fees there - more than a third of its total. As elsewhere, though, the trend had been declining: before the financial crisis the Bank and its regional counterparts had been finding it hard to compete with private capital, and some critics had been saying that the Bank should stop trying. For different reasons, some voices in the region also want to see the Bank out of the way. In 2006 Venezuela proposed a massive new investment Bank, free from the constraints of Bretton Woods, to which it offered to donate up to half of its foreign-exchange reserves, reckoned at $30 billion. Venezuela, and then Ecuador, indicated that they would withdraw from both the Bank and the IMF. It was suggested that African countries, too, would be asked to join.

75. Yet, there has been a lukewarm reaction to the 'Banco del Sur'. Latin America has been amongst the IMF's biggest customers in the past and, arguably, the scene of some its biggest successes. But it is also a good example of one of its biggest problems: while governments adopt, and even privately welcome, rationalization measures, they also like to blame the IMF when these measures are unpopular - a syndrome that those who represent the European Union will recognise!

76. But pulling out of the Bretton Woods institutions would carry many risks. Firstly, leaving the IMF would cause a technical default on a country's bonds and raise the cost of future borrowing; pulling out of the World Bank would void the bilateral investment treaties that have been signed with other countries, and which use the Bank's investment-dispute mechanisms. Probably only an oil-rich state like Venezuela would contemplate this (and that before the financial crisis and the collapse of the oil price), and even Bolivia, perhaps Venezuela's closest ally, said from the start that joining the new bank would not mean pulling out of the IMF. Brazil is particularly sceptical and has worked to limit the bank's scope. Brazil is reportedly concerned that such a bank may give soft, politically-motivated loans that are never repaid. It is also worried about the regional balance of power and its own business interests: Brazil already has its own development bank, running successfully alongside the World Bank projects, and with far greater levels of lending. Thus, in December 2007, seven countries signed up to the 'Banco del Sur', though there was no final agreement on its scope. At this point, it seems likely to end up as a fairly modest operation, focussing on cross-border infrastructure; so far, no one has pulled out of the IMF or the Bank.

77. So there are a host of reasons why countries have been cautious about radical changes to the world's economic order - some to do with economics, other to do with politics. As we are experiencing once again, the system can be extremely fragile, and the financial stability that some Latin American countries had begun to enjoy in recent years is now being severely tested by the global crisis. Once again, it is the Bretton Woods institutions that are expected to come to the rescue.

### 3. The WTO: how to reap a low-hanging fruit?

78. Though formally 'provisional', the General Agreement on Tariffs and Trade (GATT) succeeded in steering eight rounds of trade liberalisation between 1947 and 1994. At first, the focus was on tariff reduction, but by the 1960s, the Kennedy Round achieved an anti-dumping agreement and measures to promote development. The Tokyo Round, in the 1970s, saw an average one-third cut in the customs duties of major economies and made the first attempts at removing non-tariff barriers. The results of this, though, were mixed, with many initiatives being left as 'codes' agreed by some members, rather than as binding agreements, and there was a notable failure to come to grips with agricultural trade. The GATT's achievements to this point were real: tariff reductions helped trade to grow faster than production, with average rates of around 8% during the 1950s and 1960s; but thereafter, states began to devise new forms of protection and subsidy. Moreover, the GATT did not apply to trade in services and could not restrain a trend toward bilateral market-sharing agreements.

79. So a concerted effort was made to reinforce the GATT's principles. This resulted in the Uruguay Round (1982-1995) and the creation of the World Trade Organization (WTO) in 1995. The round yielded the biggest-ever reform of world trade. All sectors had been up for review, with an extension into services and intellectual property and reforms in the sensitive sectors of agriculture and textiles. It also contained the blueprint for the WTO, including a dispute settlement system and the Trade Policy Review Mechanism, thus providing the formal arbiter that countries had been seeking. As the Uruguay Round was concluded, the WTO was formally launched.

80. Then, there was a period of 'trade fatigue'. The Uruguay Round had been so ambitious, and so many countries had joined during its negotiation, that some time was needed to digest the results. Work on the Doha Development Round, which began in 2001 in the wake of the September 11 events, has not been so

successful. The US and the EU have been in endless dispute with each other, and much of the rest of the world, over agriculture; but there are many areas of concern within emerging economies too, notably over the lowering of their own tariffs. In summer 2007, as a deal over agriculture seemed more possible, Brazil led a chorus of disquiet over the prospect of cheap manufactured imports, in particular from China. Ironically, China itself was about to lose the first appeal lodged against it as a WTO member[29].

81. The next major attempt to strike a trade deal a year later, in July 2008, also failed amidst rising protectionist positions, mistrust and disagreements on farm subsidies and a safeguard mechanism for sensitive goods. Another opportunity to remove distortions in global trade, competition and entrepreneurship was missed, hurting developing countries most.Partly because they were not represented in earlier trade rounds, tariffs are much higher on goods primarily produced by developing countries than on those produced by wealthy countries[30].

82. The Doha Round has been declared dead so often – and for so many different reasons – that some wonder whether it can have any life left in it. Although following the collapse of the Ministerial negotiations in July 2008 there have been several calls for the revival of the talks as a way to boost global growth, the protectionist argument tends to be persuasive in recessionary times. Today, the central question for the WTO is: how far, and how fast, can national interests be pushed in the cause of free trade?

83. According to the Center for Global Development, removing global trade barriers would lift 500 million people out of poverty, with about half of that effect from the opening of agricultural markets. The developing world would benefit significantly as, on average, a one percent increase in a country's ratio of trade to output eventually boosts its income by one-half percent, which translates into a one percent reduction in poverty. U.S. Department of Agriculture studies show that eliminating rich countries' agricultural supports would result in a 24% gain in the value of poor countries' farm exports, which account for a quarter of their total exports and represent industries that employ roughly half their population.

84. All sides agree that the stakes are high. In services – long excluded from trade talks, but now the fastest-growing sector of the world economy – the OECD has estimated gains of up to $500 million. It also sees global welfare gains of around $100 billion, if there were full tariff liberalisation for industrial and agricultural goods – and as much again if there were agreement on trade facilitation (the removal of procedural barriers). Developing countries would reap up to two-thirds of the benefit. Yet, amazingly, World Bank studies show that more than half of the burden on developing countries' exports come from restrictions imposed by other developing countries. This is partly because developing countries still tend to have high tariff levels, and partly because many developing countries mostly trade with other developing countries. So there is no good substitute for a global opening of markets.

85. Without a Doha agreement, there is a danger that existing distortions will become entrenched and the rules-based multilateral system would be weakened, while countries increasingly proceed via bilateral and regional agreements, reminiscent of the pre-war years. Already such deals proliferate. The US, for instance, has a range of bilateral deals, particularly in Latin America, while in Asia there is talk of an "APEC only" Free Trade Agreement (FTAAP). This would leave the WTO acting increasingly as a centre of disputes, with global trade proceeding by litigation, rather than legislation. It is no wonder that the OECD sees the Doha round as a low-cost insurance policy against the revival of protectionism and trade wars, and urges that the key players grasp what it describes as the 'low hanging fruit' of the world's trading architecture.

86. So what are the prospects? Those in charge of the process are refusing to give up. Reaching a deal would require an immense effort of political will, and perhaps careful brinkmanship, to secure terms that all sides can accept. Observers such as the OECD believe that the basis for an agreement exists, with largely converging views on a range of important issues. But no trade round has ever been so complex, and some wonder whether key states would actually approve what their negotiators can come up with.

87. Having tried to force a conclusion several times, the WTO seems to be running out of negotiating room: the economic downturn will surely make concessions harder to accept, while ever more necessary as a stimulus to growth, and so far multilateral trade talks have not appeared to be among the top priorities of the new US Administration. Nevertheless, at their London Summit on 2 April 2009, the G20 leaders, besides calling for a rejection of protectionism, said that they remained "committed to reaching an ambitious and balanced conclusion to the Doha Development Round, which is urgently needed. This could boost the global economy by at least $150 billion per annum. To achieve this we are committed to building on the progress

29. Appeal based on the restrictive tariffs China places upon foreign car components.

30. Even in the US, where tariffs average less than 2%, tariffs on items such as footwear, vegetables, fruit juices, peanuts, and sugar range from 40% to over 100%. Other importing countries levy tariffs of up to 1,000% on such items.

already made, including with regard to modalities. We will give renewed focus and political attention to this critical issue in the coming period and will use our continuing work and all international meetings that are relevant to drive progress."

88. In the meantime, the global community should stay focused on helping weaker countries to overcome obstacles that prevent them from taking advantage of new trading opportunities. This is why the World Bank works with the WTO and development partners on "aid for trade", mobilizing resources to help poor countries build up their trade capacity and capture the potential benefits of globalization. An even more urgent problem is the effect of the credit crunch on trade. Financing international trade must be an immediate priority on the agendas of the World Bank, the IMF and the WTO. Hence the importance of the G20 leaders' promise on 2 April 2009 to "ensure availability of at least $250 billion over the next two years to support trade finance through our export credit and investment agencies and through the MDBs" and to "ask our regulators to make use of available flexibility in capital requirements for trade finance."

89. To the Rapporteur, such a multilateral approach represents both a worthy restatement, and development, of the Bretton Woods ideals[31]. The Assembly has expressed its support for these objectives and called upon the key players to redouble their efforts to secure a successful outcome to the Doha Round. We should be mindful of the fact that the opposite could set back the efforts of the global community to work out other large-scale multilateral agreements, such as on coping with global warming and globalisation.

90. On WTO reform, we should note a call by the WTO Director-General, Pascal Lamy, to change the rules for future talks, and the opinion of former Director-General Supachai Panitchpakdi, that some of the WTO's workings are 'dysfunctional'. The complexity of the multidimensional game is such that a continued stalemate is a likely result of marathon talks: WTO rules that every member has a veto power and that "nothing is agreed until everything is agreed" have reached their limits. Forging a consensus on every single issue is problematic. It is time for the WTO's 153 members to accept that smaller-scale agreements should be allowed in individual trade sectors among those willing to advance and thus pave the way for the final deal. Further ideas are to have groups of countries negotiate in blocs, and to have proposals drafted by neutral experts rather than countries.

91. Although it is governments that negotiate at the WTO on behalf of their countries, the role of parliaments should not be underestimated. Whilst the WTO has no parliamentary assembly of its own, national parliaments are called to validate bilateral and multilateral trade agreements brokered by governments, including in the framework of the WTO, and to vote laws that need to be compatible with their countries' international trade commitments. The European Parliament[32], the PACE and the Inter-Parliamentary Union have for some time advocated in favour of giving the WTO a parliamentary dimension which has so far taken the form of parliamentary conferences on the WTO.

92. One such conference (held in Geneva on 11-12 September 2008) adopted a statement underscoring that "it is crucial for parliaments to exercise ever more vigorously and effectively their constitutional functions of oversight and scrutiny of government action in the area of international trade. […and] play a far greater role in overseeing WTO activities and promoting the fairness of the trade liberalization process".

93. It is to be hoped that a full WTO Ministerial Conference can be organised as soon as possible in order to discuss the strategic direction of the Organisation in the light of the global financial and economic crisis, to review prospects for the Doha Round, to highlight the need to combat protectionism and to discuss internal reform issues.

### 4. The ILO: furthering core labour standards

94. As globalisation has changed the nature of relations between states by removing national borders in many sectors, some thorny questions about working migrants, labour standards and social justice have come to the fore. The International Labour Organization (ILO), born in 1919 together with the League of Nations and

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31. A series of WTO legal texts foresee a special relationship with the World Bank and the IMF, and cooperation with several other international organisations, including Codex Alimentarius (FAO/WHO), the FAO (Food and Agriculture Organisation), the ILO, the IPPC (International Plant Protection Convention, hosted by the FAO), the ITU (International Telecommunications Union), the ITC (International Trade Centre), the OECD, the UN, UNCTAD (United Nations Conference on Trade and Development), UNEP (United Nations Environment Programme), the WCO (World Customs Organisation), WHO (World Health Organisation), the OIE (World Organisations for Animal Health) and WIPO (World Intellectual Property Organisation).

32. See the report "Towards a reform of the World Trade Organisation" (A6-0104/2008) by Cristiana Muscardini for the European Parliament Committee on International Trade.

since 1946 the first UN specialized agency, provides a world-wide institutional framework for shaping solutions to improved development and human condition through employment and decent work. Its past achievements include such hallmarks of modern society as the eight-hour working day, maternity protection, suppression of forced labour, child-labour laws, policies on workplace safety, recommendations of equal pay for men and women, and the core rights to freedom of association, collective bargaining and strike. The Declaration on Fundamental Principles and Rights at Work, adopted in 1999, reaffirms the multilateral commitment to respect the rights of workers and employers (to freedom of association and collective bargaining) and commits states to eliminating forced labour, child labour and discrimination at work.

95. As the ILO admits, child labour is a most pressing social, economic and human rights issue, with some 218 million children estimated to be working worldwide[33], often at the expense of adequate education and healthcare. Attempts to eliminate the worst forms of child labour (including slavery, sexual exploitation, illicit activities and practices harmful to health, safety and morals) have led to the adoption of a key ILO convention in 1999 and, in a broader sense, the international community is committed, with the Millennium Development Goals, to ensure that by 2015 all children complete a primary education course. The challenge, however, remains effective implementation, especially in developing countries. Several specialized UN agencies, the World Bank, regional development banks and civil society organizations are key ILO partners in this direction.

96. With the world's population growing by about 84 million every year (of which 97% live in developing countries), some 100 million persons seek to join the global work market each year against the backdrop of over 1 billion unemployed or underemployed. Not least because of the financial and economic crisis, but also for a host of social and political reasons, the promise of globalization to deliver economic gains through 'more and better jobs' has yet to be realised. In this connection, ILO Director-General Mr Juan Somavia stressed in a statement on 20 October 2008 that world leaders should not just focus on financial institutions when they talk about rescue plans, but, most importantly, on individuals, especially the most vulnerable. He underlined the need for "prompt and coordinated government action to avert a social crisis that could be severe, long-standing and global".[34] The crisis would significantly increase unemployment,[35] so measures should be taken to extend social protection and unemployment benefits, facilitate training, strengthen placement services, and provide emergency employment schemes. The crisis had already undermined pension funds invested in the stock market, so pension systems should be given sufficient liquidity to avoid having to sell assets in a collapsed market in order to pay pensions.

97. In its Resolution 1651 (2009) of 29 January 2009 on the consequences of the global financial crisis, the Parliamentary Assembly gave its support to Mr Somavia's statement and deplored the fact that "the G20 action plan [adopted on 15 November 2008] makes no reference to protecting the social and economic rights of citizens in a period of crisis." Hence there is cause for satisfaction that the G20 leaders, at their London Summit on 2 April 2009, said "We recognise the human dimension to the crisis. We commit to support those affected by the crisis by creating employment opportunities and through income support measures. We will build a fair and family-friendly labour market for both women and men. We therefore welcome the reports of the London Jobs Conference and the Rome Social Summit and the key principles they proposed. We will support employment by stimulating growth, investing in education and training, and through active labour market policies, focusing on the most vulnerable. We call upon the ILO, working with other relevant organisations, to assess the actions taken and those required for the future."

98. Poor working conditions, forced and precarious work, and unfair treatment of migrant workers (some 81 million worldwide) remain huge global concerns. However, whilst the developed countries feel they have a moral obligation to help the developing world to implement core labour standards, thus anchoring basic human rights and ensuring fairer competition, developing countries all too often perceive this as neo-protectionism on the part of industrialized countries. It is therefore vital to seek greater mutual understanding in this area via global economic institutions (notably the ILO, the World Bank and the WTO) and to translate concerns into affirmative policy tools that can bring about a 'win-win' deal for all.

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33. According to the 2007 ILO Report "Worldwide movement against child labour: progress and future directions", the Asia-Pacific region counts about 122 million child workers, Sub-Saharan Africa about 49 million and Latin America plus the Caribbean about 5.7 million. They are mostly involved in agriculture (69%) and industry (9%).
34. ILO/08/45.
35. According to the ILO's *Global Employment Trends 2009*, the world's unemployed could reach 198 million to 230 million in 2009, depending on the success of policies to turn the recession around.

## 5. The OECD as a pathfinder

99. Based on its undoubted economic expertise, the OECD, which groups 30 of the world's most advanced industrial countries and is in a process of expansion that will also bring in emerging economies, has defined a Strategic response to the financial and economic crisis.[36] The OECD Strategy covers two main areas. The Strategy emphasises the need to align regulations and incentives in the financial sector to ensure tighter oversight and risk management. The OECD also urges governments to review and upgrade their national policies and improve international co-ordination in order to restore the conditions for economic growth.

100. In the OECD's view, nearly all its member countries can enact growth-enhancing structural policies that could potentially enhance short term, as well as long-term growth. These include reforming anti-competitive product market regulation and reducing tax burdens for low-income workers, as well as launching major infrastructure projects and compulsory training programmes for the unemployed.

101. Beyond such actions, however, the OECD stresses the need to re-think how the world economy operates. The goal must be a global economy that is not only stronger and more stable but also more ethical, environmentally friendly and more equitable. Measures needed to strengthen the economy and increase prosperity include improving regulation, strengthening corporate governance, promoting trade, investment and competition, and developing policies for sustainable growth. At the same time, attention must be paid to the environmental dimension by tackling climate change.

102. To improve ethical standards in the economy, there is a need to promote transparency and integrity, fight corruption and money-laundering and combat tax evasion. To promote a fairer economy, the benefits of prosperity should be shared by boosting employment and social inclusion, fostering development, and providing adequate education and healthcare.

103. The OECD is working in conjunction with other international economic and financial institutions to enhance co-ordination of the global response to the crisis. For example, its experts met with those of the IMF and the World Bank on 4 February 2009 for a seminar on the response to the crisis and exit strategies.[37] The participants emphasised the urgent need to restore market confidence in the financial sector and stimulate the real economy, to exercise vigilance against trade and investment protectionism, to support human capital formation and avoid policies that would undermine recent reforms or reduce the labour supply, and to mobilise international fora and multilateral institutions in order to coordinate the policy response and design the new regulatory architecture.

104. For their part, the G20 leaders at their London Summit on 2 April 2009 noted, in the context of the fight for tax transparency and their promise "to take action against non-cooperative jurisdictions, including tax havens", that "the OECD has today published a list of countries assessed by the [OECD] Global Forum against the international standard for exchange of tax information". Following the G20 meeting, the OECD provided a detailed report on progress by financial centres around the world towards implementation of the internationally agreed standard on exchange of information for tax purposes.[38] Subsequently, the four countries that had not yet committed to the internationally agreed tax standard, Costa Rica, Malaysia, Philippines and Uruguay, announced their intention to do so. Nevertheless, the list has been criticised in some quarters for appearing to whitewash the United Kingdom (Jersey, Guernsey, etc.), for example, and for its lack of clarity with regard to Hong Kong and Macao, among other tax havens.[39]

105. Although many still perceive the OECD as a purely economic organisation, data provider, think-tank and policy forum, economic matters there are not treated in isolation. In the context of globalisation, the OECD has strengthened its responsiveness to concerns about the environment, health, education, innovation, governance and social changes, considering them as part and parcel of progress and prosperity in society. Trends are monitored, policy experiences exchanged and expertise shared with more than 100 countries – beyond the membership circle of 30 states. Yet the criteria for membership are not quite clear and should, in

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36. http://www.oecd.org/dataoecd/33/57/42061463.pdf
37. http://www.oecd.org/document/7/0,3343,en_2649_33725_42177095_1_1_1_1,00.html
38. The internationally agreed tax standard, which was developed by the OECD in co-operation with non-OECD countries and which was endorsed by G20 Finance Ministers at their Berlin Meeting in 2004 and by the UN Committee of Experts on International Cooperation in Tax Matters at its October 2008 Meeting, requires exchange of information on request in all tax matters for the administration and enforcement of domestic tax law without regard to a domestic tax interest requirement or bank secrecy for tax purposes. It also provides for extensive safeguards to protect the confidentiality of the information exchanged.
[cf. http://online.wsj.com/documents/progressreport0402.pdf]
39. Cf. Tax Justice Network, at http://taxjustice.blogspot.com/2009/04/oecd-global-forum-list.html

future, be clarified. Together with various partner organisations (including the Bretton Woods institutions, the Council of Europe, the ILO and many other UN bodies), the OECD has a careful eye on the planet and far-reaching ideas for balanced development.

106. Looking ahead, OECD's capacity to detect emerging policy issues, systemic risks and long-term development challenges positions the organisation as a leading player in modernising multilateral policy making and achieving policy coherence. Knowing how difficult it is to devise and implement structural reforms, members of the Parliamentary Assembly Committee on Economic Affairs and Development particularly appreciate OECD's insights on the 'political economy of reform', advice on structural reform issues, ongoing work on 'measuring the progress in societies' and guidance, together with the IMF, on voluntary best practices for sovereign wealth funds.

107. The report and debate on the OECD held annually by the Parliamentary Assembly, enlarged to include parliamentary delegations from the non-European OECD member states, is a unique opportunity for a parliamentary forum to exercise democratic oversight with regard to the OECD's wide-ranging activities, to the benefit of all the participants involved. This practice should be continued.

### 6. The Bank for International Settlements as a global co-ordinator

108. In existence since 1930, the Bank for International Settlements (BIS) is the world's oldest financial institution promoting international (and domestic) financial stability, sound banking and co-operation among central banks. It has 55 members - central banks (including from 32 Council of Europe states plus the European Central Bank) which seek to keep their monetary policies in line with market reality, intervene with massive financial resources in emergency situations and exert regulatory powers conducive to greater transparency and predictability in financial markets.

109. The Basel Committee on Banking Supervision (BIS) is an authoritative source of banking policy advice and is best known for its standards for capital adequacy (Basel I accord of 1988 – now superseded by the Basel II agreement of 2004), the Core Principles for Effective Banking Supervision, and the Concordat on cross-border banking supervision. However, there remain substantial differences between the US, the EU and the UN concerning the degree of capital adequacy and reserve controls that is needed in global banking. The UN agencies were particularly critical of arrangements that they saw as merely technical and insufficient to defuse fundamental risks. Some critics also point to insufficient BIS capacity to enforce its regulations more widely in order to remove distortions and asymmetries in competition on the global financial market. Moreover, there is a growing body of opinion that the BIS, acting as a sort of financial safety net, should address some specific concerns such as the growth of offshore financial centres, highly leveraged institutions, deposit insurance, money laundering and accounting schemes.

110. At their London Summit on 2 April 2009, the G20 leaders agreed "that all systemically important financial institutions, markets, and instruments should be subject to an appropriate degree of regulation and oversight" and that in particular, "we will amend our regulatory systems to ensure authorities are able to identify and take account of macro-prudential risks across the financial system including in the case of regulated banks, shadow banks, and private pools of capital to limit the build up of systemic risk. We call on the FSB [see below] to work with the BIS and international standard setters to develop macro-prudential tools and provide a report by autumn 2009."[40]

### 7. The Financial Stability Forum (FSF), renamed Financial Stability Board (FSB)

111. The financial and economic crisis has brought to the forefront of the policy response debate a hitherto relatively little know institution, the Financial Stability Forum (FSF), transformed by the G20 leaders at their London Summit on 2 April 2009 into the Financial Stability Board (FSB). Based with the Bank for International Settlements (BIS) in Basel and sharing its secretariat resources, the FSF has met as often as needed, bringing together senior representatives of national financial authorities (e.g. central banks, supervisory authorities and finance ministries) from the G7 countries, Australia, Hong Kong, the Netherlands, Singapore and Switzerland, international financial institutions, international regulatory and supervisory groupings, committees of central bank experts and the European Central Bank. The FSB will now include, in addition to the FSF members, all the other G20 countries, Spain and the European Commission.

40. Declaration on strengthening the financial system, p. 3.

112. The FSF was first convened in April 1999, at the initiative of G7 Finance Ministers and Central Bank Governors, in order to promote international financial stability, improve the functioning of financial markets and reduce the tendency for financial shocks to propagate from country to country, thus destabilizing the world economy.

113. The FSF's mandate is to assess vulnerabilities affecting the international financial system; to identify and oversee action needed to address these; and to improve co-ordination and information exchange among the various authorities responsible for financial stability.

114. The FSF seeks to give momentum to a broad-based multilateral agenda for strengthening financial systems and the stability of international financial markets. The necessary changes are enacted by the relevant national and international financial authorities.

115. Since 2001, the FSF has also held regional meetings with non-member financial authorities in Latin-America, Asia-Pacific, and Central and Eastern Europe.

116. In April 2008, the FSF submitted to G7 Finance Ministers and Central Bank Governors a comprehensive set of recommendations for addressing the weaknesses that produced the financial crisis and for strengthening the financial system. This *Report on Enhancing Market and Institutional Resilience* drew on extensive work by national authorities and the main international supervisory, regulatory, and central bank bodies.

117. The guiding principle underlying this work was “to recreate a financial system that operates with less leverage, is immune to the set of misaligned incentives at the root of this crisis, where prudential and regulatory oversight is strengthened, and where transparency allows better identification and management of risks.”[41]

118. The actions recommended by the FSF and endorsed by the G7 were to be implemented by end-2008. These included “further measures to strengthen standards and oversight of bank capital and liquidity, risk management standards in financial institutions, valuation practices and accounting standards.”

119. The FSF announced in October 2008 in its follow-up report that it would “continue to oversee and coordinate implementation of the recommendations in a manner that preserves the advantages of integrated global financial markets and a level playing field across countries”. In addition, the FSF would “monitor and address the international interaction and consistency of emergency arrangements and responses being put in place to address the current financial crisis”, “work to mitigate sources of pro-cyclicality in the financial system”, ”reassess the scope of financial regulation, with a special emphasis on institutions, instruments and markets that are currently unregulated”, and “work to better integrate macroeconomic oversight and prudential supervision, to help translate more effectively systemic concerns into concrete supervisory and regulatory responses”.[42]

120. Building on the current work of the FSF, the G20 leaders have given its successor, the FSB, a wide-ranging role in strengthening the financial system, including its supervision and regulation, as well as responsibility for monitoring progress together with the IMF.

## 8. The challenge of global financial and economic co-ordination

121. At this time of financial and economic crisis in a globalised world, the need for more intensive global financial and economic co-ordination has never been greater. So far it may be said that governments have taken the lead in coming together to discuss what should be done, notably under the impulsion of the leaders of France and the United Kingdom. Several of the institutions mentioned in this report are involved, and both they and the world financial and economic system should emerge strengthened from the current complex and multifarious discussions and decisions that remain to be implemented.

122. A first step was taken by the leaders of the Group of 20 industrialised and developing countries at their summit in Washington, D.C. on 15 November 2008. In their Declaration, the leaders determined “to enhance our co-operation and work together to restore global growth and achieve needed reforms in the world’s financial systems”. They analysed the root causes of the crisis and detailed action taken and to be taken to stabilise financial markets and support economic growth. As far as the international financial and economic institutions are concerned, the G20 stressed “the International Monetary Fund’s (IMF) important role in crisis

41. http://www.fsforum.org/press/pr_081009f.pdf
42. *Ibid*, p. 2.

response", welcomed its "new short-term liquidity facility", and urged "the ongoing review of its instruments and facilities to ensure flexibility." They encouraged "the World Bank and other multilateral development banks (MDBs) to use their full capacity in support of their development agenda" and welcomed "the recent introduction of new facilities by the World Bank in the areas of infrastructure and trade finance." They also pledged to "ensure that the IMF, World Bank and other MDBs have sufficient resources to continue playing their role in overcoming the crisis."

123. On the reform of the international financial institutions, the G20 leaders said: "We are committed to advancing the reform of the Bretton Woods Institutions so that they can more adequately reflect changing economic weights in the world economy in order to increase their legitimacy and effectiveness. In this respect, emerging and developing economies, including the poorest countries, should have greater voice and representation. The Financial Stability Forum (FSF) must expand urgently to a broader membership of emerging economies, and other major standard setting bodies should promptly review their membership. The IMF, in collaboration with the expanded FSF and other bodies, should work to better identify vulnerabilities, anticipate potential stresses, and act swiftly to play a key role in crisis response." More detailed proposals were set out in the Action Plan to Implement Principles for Reform.

124. The second major step forward has been the G20 leaders' London Summit on 2 April 2009, whose decisions have been referred to at various points in this report. Comment on its results have been generally positive tinged with caution. On the one hand, the promise of tripled resources for the IMF (to $750 billion) to allow it to rescue countries in difficulty, a $250 billion increase in that institution's Special Drawing Rights to boost world liquidity, another $250 billion to guarantee the financing of international trade, the undertaking to eschew protectionist measures, the targeting of tax havens, and the determination to strengthen regulation of the financial system via such institutions as the new Financial Stability Board, are all welcomed. But on the other hand there is some disquiet as to where much of the new funding is going to come from, the fundamental difference over how much economic stimulus is needed to boost the global economy out of recession is unresolved, and there is still a certain lack of clarity as to how the banking system is to be restored to health.

125. While it must be recognised that only governments and central banks control the real resources for the stimulus packages and rescue operations needed to counter the recession, they have done so by and large within the coordinated framework of the G 20 and the European Union, which should continue to set guidelines and targets. Such global and regional co-operation is vital to overcome a financial and economic crisis that has gripped the globalised economy.

## 9. Concluding remarks

126. When work began on this report, the outlook for the international economic institutions was not particularly good. The global economy was booming and credit was generally available on better terms than those provided by the IMF or the World Bank to countries wishing to borrow. In these circumstances, the Bretton Woods institutions were struggling to reinvent themselves. They were deluged by criticism about their irrelevance and their inability to reform. Paradoxically, the crisis that has decimated the global financial and economic system, with untold consequences on the social and human level, has been a life-saver for these institutions. The IMF and the World Bank have emerged hugely strengthened from the crisis, not only in the significantly increased resources available to them, but also as a result of the reforms that have been put in train by their leadership. However, this paradox is easily explained. These institutions were created following the Second World War precisely for the purpose of ensuring a sound financial system and promoting economic growth and development. They must now come back to their fundamental purpose in changed circumstances.

127. As far as the World Trade Organization is concerned, it has suffered from disappointment about the continuing failure to conclude the Doha Round of trade negotiations, and unlike the two aforementioned institutions, the crisis is not necessarily conducive to a revival of its fortunes since global recession is more likely to elicit protectionist than liberal reactions. But this is precisely why the governments and the parliaments of the Council of Europe member states must do everything in their power to ensure a successful conclusion to the Doha Round.

128. Obviously, intergovernmental organisations are only as strong as the governments that run them allow them to be. The Parliamentary Assembly should not only continue to act as a forum for debate on the important work of these institutions, but it should call on parliaments that vote for the national budgetary contributions necessary for their funding to exercise close vigilance over every aspect of their activities.

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N.B.: The names of the members who took part in the meeting are printed **in bold**

*Secretariat of the committee*: Mr Newman, Mr de Buyer, Mr Chahbazian, Mr Pfaadt.