First Intersessional: Response by the Civil Society FfD Mechanism

25th April 2025

II.F International Financial Architecture and Systemic Issues

1. Reaffirming the role of the United Nations in Global Economic Governance and IFA Reform

FfD4 offers an opportunity to lay out an ambitious and comprehensive set of reforms to the international financial architecture to be decided coherently and democratically, with universal and inclusive participation. while ensuring human rights, gender and race equality and ecological integrity. This should include recognition and redress of historical and systemic economic disparities imposed on African countries and communities of African descent, directly linked to colonial legacies, systemic racism, and structural exclusion perpetuated by IFIs.

In recognition of the spirit of Monterrey at the inception of FfD in 2002, it is therefore essential to maintain a much wider than IFI agenda for International Financial Architecture reform, which can be further developed in the follow-up process. This would also mean initiating a robust review of the IFI/MDB ecosystem, in accordance with the charter of the United Nations and its legitimate role in global economic governance.

- Challenging the so-called independent mandates and governance of IFIs: Civil society continues to be concerned with the pressure by developed countries to dilute and undermine the section on systemic issues (now renamed "International financial architecture and systemic issues") to soft encouragements (not even 'mandates') to the Bretton Woods Institutions. This would *de-facto* relegate the stewardship of global economic governance to the IMF and World Bank, omitting the inarguably more democratic role of the UN and significantly limit opportunities for meaningful follow-up. By agreeing to work through the governance structures of IFIs, developing countries will continue to be muted in global economic decision-making due to the inequitable voice and vote governance structure, where for every vote that the average person in the North has, the average person in the South has only one-eighth of a vote. It is therefore essential to move beyond the notion of "independent mandates and governance bodies of different international institutions" (as challenged by developing countries in the negotiations) and bring the IFIs (BWI and other IFIs/MDBs) under proper intergovernmental democratic governance, restoring their foundational establishment as an integral part of the UN system with full accountability to UNGA.
    - **Para 45-pre**: We strongly support the inclusion of 45-pre as follows "From Monterrey to Addis, we have emphasized the importance of continuing to reform global economic governance and to ~~strengthen~~ position it within the United Nations leadership role ~~in promoting development~~ (…)"
    - **Para 45**: We call for deletion of references to "~~respect for the independent mandates and governance bodies of different international institutions~~" and reject any inclusion of references that over-estimate the impact of private credit ratings "~~which perform an important function in providing information to financial markets~~"
    - **Para 46**: We call for deletion of the heading "~~To further strengthen global economic governance~~" as it reduces global economic governance to BWIs and propose replacing it with "To undertake a comprehensive review of the mandates, operations, and governance of IFIs including but not limited to:"
    - **Para 47 (a):** We call for sub-para (a) to clearly locate global macroeconomic coordination and policy coherence within the UN process (FfD Forum, ECOSOC), particularly with reference to identifying

and tackling spillover effects of developed countries policies, particularly those arising from monetary policy, as the core concern of systemic issues.

- **Para 47 (a-bis):** We support the inclusion of sub-para (a.bis) to tackle inequalities between countries in accessing the global safety net and ensure that developing countries can expand public spending and investments in sustainable development without incurring debt burdens or liquidity crises.
- **Para 47 (g):** We strongly endorse the centrality of SDRs but believe that the discussion cannot progress unless the role of SDRs as a reserve asset is reassessed in the context of a wider review of the entire reserve system. Since the current negotiating positions are distant, we reiterate our proposal as follows: "We agree to establish an intergovernmental working group under the ECOSOC to identify a set of reforms that can facilitate a more efficient reserve system, including the function of Special Drawing Rights and the complementary roles that can be exercised by various regional arrangements. The working group will also create a new playbook for SDRs that will establish new rules that facilitate their regular as well as countercyclical issuance, their widespread use and their channeling to the countries that need them most, including through changes that facilitate SDR transfers to multilateral development banks."

➢ Rejecting new mandates to institutions unaccountable to UNGA: In this context, it is also essential to avoid mandates to the Financial Stability Board, given its exclusive representation (very few jurisdictions) and extensive conflicts of interest. References to the Bank of International Settlement and the Committees it hosts can only be made if there is a concomitant agreement to reform the BIS to ensure adequate representation of developing countries (currently BIS only includes 63 central banks). The premise to mandate regulatory financial functions, and the concomitant assignment of jurisdictional powers, need to be the establishment of democratic, representative and legitimate institutions with clear and transparent accountability mechanisms.

- **Para 49:** We insist on the deletion of sub-para (a) and (b). We reject proposals for any mandate by the UN to the G20 (not to mention its continued failure to make any sizeable progress on NBFIs). To "improve financial regulation", we reiterate the need for **a global agreement under the aegis of the UN on the importance of capital account management** (in order to further develop an actionable goal on Paragraph 105 in the AAA)**, and the initiation of an intergovernmental process towards a UN global framework to adequately regulate and supervise the critical functions and systemic cross-border effects of asset management industry**.
- **Para 49 c:** We reiterate our call to reform the BIS to ensure adequate representation of developing countries prior to assigning any mandate to BIS and the Committees it houses.
- **Para 50:** We reiterate our proposal to add a new sub-para c as follows "We recognize the importance of developing bilateral and plurilateral payments initiatives for settling international economic obligations and managing foreign exchange transactions. We commit to explore options to increase the use of national currencies to settle obligations and manage foreign exchange payments, complemented by enhanced efficacy and fairness in cross-border payments, clearing, and settlement systems."

2. Deciding an ambitious reform agenda for Credit Rating Agencies (CRAs)

➢ Recognizing the urgency of reforming CRAs in the current geopolitical context: There is widespread agreement on the need to address the current credit rating system. Recent pandemic and debt crises have exposed the current dysfunctionalities, from a developing country perspective, in terms of bias, inaccuracy, lack of objectivity, and pro-cyclicality in ratings, market concentration and dominant position, and conflicts of interest in the execution of ratings. The manner in which CRAs penalize sovereign states for restructuring debt obligations or when ecological disasters strike must be urgently addressed to safeguard functional incentives and effectiveness in the financial architecture. The reform of credit rating systems is indispensable to ensure fair borrowing terms for developing countries, preserve policy space to restructure debt toward the right to development through a democratic and accountable global financial system. With due consideration to the pro-cyclical bias exposed by ratings, whereby CRAs penalize public spending and reward fiscal consolidation, CRA reform is urgent given the prospects of a downturn in the global economy arising from current geopolitical tensions and tariff wars.

- **Para 48:** Heading is important but need to unambiguously commit to "strengthen regulation in the financial system and reform credit ratings to ensure long term developmental objectives, including debt restructuring, public expenditure and affordable access to financing"
- **Para 48 a.pre:** We support the inclusion of sub-para (a.pre)

➢ Establishing an intergovernmental process: In this context, institutionalizing soft dialogues between all stakeholders – as proposed by some Member States and groups – will not generate any substantial gain as this approach would simply consolidate attempts based on soft interventions and voluntary measures, often with the agenda-setting and participation of the same market actors that need to be regulated. Civil society reiterates its call for an Intergovernmental Commission under ECOSOC to regulate, monitor and hold accountable CRAs, given the central role they play in the international financial architecture. Such a Commission will certainly include stakeholders' consultations and dialogue but will be firmly anchored in the normative power of agenda-setting within intergovernmental processes led by UN Member States.

- **Para 48.a:** We welcome the call for an intergovernmental process, but its scope cannot be limited to soft and ineffectual dialogues among stakeholders. We reiterate our proposal to "establish an Intergovernmental Commission under ECOSOC to reform credit rating methodologies and systems, including ESG ratings."

➢ Mandating the exploration of an international public credit agency at the UN: The critical role of such a Commission, among other reforms, will be that of exploring the establishment of an international public credit agency at the UN. Considering the current resistance to regulatory initiatives in the CRA markets, this is an effective manner of reforming and correcting rating methodologies in order to fully recognize the public interest mandate of the State, therefore providing investors with ratings that reflect greater accuracy and objectivity, and effectively support fair access to and terms of international borrowing, particularly for the goal of achieving sustainable development. Once such ratings are established, historical data can be progressively developed in order to explore the adequacy and accuracy of different rating systems over time as well as their responsiveness to changing circumstances, including crises.

- **New Para 48.a-bis:** To clarify the role and mandate of the Commission, we propose to include a new para 48.a-bis as follows: **"**The Intergovernmental Commission under ECOSOC will aim to:
  - Establish a regulatory framework that can address CRA dysfunctionalities, from a developing country perspective, in terms of methodological bias, inaccuracy and pro-cyclicality in ratings, as well as tackle market concentration, dominant position, and conflicts of interest.
  - Examine needed international institutional innovations required to correct and avert the adverse impacts of CRAs in the financial architecture.
  - Explore proposals such as the establishment of an international public credit rating agency at the UN to provide more transparent, accurate, and equitable assessments of creditworthiness.