

Creating a Global Finance System for the 21st Century: *An Action Strategy*

A Report of the Global Finance Initiative

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Executive Summary

The finance crisis offers a unique opportunity to create a global finance system for the 21st century that vastly enhances stability, wealth, social well-being and environmental sustainability. Current responses to the global financial crisis will not produce this type of system. The processes only engage traditional insiders and their institutions – those that presided over the development of the crisis. There is a vacuum of vision about how to create a process that will produce the scale of change needed. Without vision, leadership and the right processes, we will squander the opportunity. And we will condemn ourselves to repetition of the crisis.

In comparison to the traditional insider processes, there should be processes to meaningfully engage innovators who have the knowledge, experience and legitimacy to produce the transformation that is needed. A year-long consultation with four dozen professionals engaged in different aspects of finance from different sectors in around the world concludes that we now need a global process that will be:

- 1) **Foundational:** Change must be driven by addressing profound questions about the purpose of the financial system and the principles that direct its actions.
- 2) **Comprehensive:** Change must encompass the connections between accounting systems, currencies, regulatory systems, economic structures and all parts of the financial system.
- 3) **Inclusive:** In addition to the traditional insiders, bring in other groups including responsible investors, multi-stakeholder groups working on finance issues, asset owners, labor, NGOs and critical academics. And make participation truly global.
- 4) **Systemic:** True systemic risk is not only financial. The change must connect financial stability to the real economy, social equity and environmental sustainability. This reflects “triple-bottom-line” logic: paper economies support bubbles and do not generate real wealth; increased income differentials lead to social violence and destruction of assets and wealth-generation; continual erosion of natural capital will lead to economic collapse.

Such a process will require time, commitment, imagination and money. Guiding lessons for such a process can be found in numerous global multi-stakeholder initiatives. Important to distinguish is the short-term and interim changes that are needed within the next year to address the economic-financial crises, and the medium-term two- to three-year effort that is required to produce the outline for a 21st century financial system and its institutions.

The effort required is significant. But the stakes and the opportunities are enormous.

Introduction

This investigation, called the Global Finance Initiative (GFI) began in January 2008, well before the scale of the global finance crisis was recognized. While this report is being prepared in March 2009, the global financial crisis continues. Stock markets are half their level of a decade ago, unemployment is rising dramatically, monetary policy appears to be spent as interest rates hover near zero, and there are ever-increasing cries for government intervention on top of already massive spending.

Few would question the need for dramatic change in finance, and that the change must be global. However, even for many people working in the arena of finance industry policy, the phrase “global public policy system for finance” spurs confused or vacant responses. What are you talking about? And *who* are you talking about in terms of people and institutions? Without responding to these questions, how can we understand what has gone wrong and what needs to be done? This report examines these issues from a critical perspective: one aimed at identifying actions to support integration of social and environmental concerns into the fabric of the global finance system.

The GFI began by speaking with people working on social and environmental concerns in finance. Some people identified through this analysis gathered in London in late August and raised as key questions: What is the relationship between *stability* and *sustainability* for the financial system? Can we really have long-term financial system stability without addressing issues of social equity and environmental degradation? Is part of the problem that we have construed financial goals of monetary stability and economic growth in too much of a vacuum? Without connecting growing social inequity and decreases in environmental capital to the finance system, can we really have financial stability?

Work following the London meeting focused upon defining the current global public policy finance institutions, their relationships, and the relationships between them and stakeholders in global finance. A second meeting at Harvard Business School in January 2009 brought together some people from the August meeting and a few others from other key stakeholder groups. At that meeting participants agreed that current financial system reforms would almost certainly be inadequate, and developed a different way forward that contrasts with the current one led by traditional insiders who simply do not have the innovative perspectives necessary to respond to the opportunities and challenges. This report summarizes the knowledge developed through this initiative and a path forward.

The Project Assumptions

Large system change initiatives such as one for the global finance system are based in some assumptions, since they are based in specific historical perspectives and projections that are not testable in a laboratory setting. The best defense against the dangers that assumptions present, is to make them explicit and continually review their legitimacy as the change process develops. Behind this initiative the following assumptions appear particularly important:

1) Financial system stability and socio-environmental sustainability are connected. This investigation does not attempt to address these arguments – although they certainly need further development. There are two general arguments to connect financial system sustainability and stability. One is the social equity one: if the financial system workings are based in generating increasing disparities in income, social stability will be threatened. The second argument is the environmental one: if the financial system is based in principles that encourage continual erosion of environmental capital, we will end up with environmental collapse.

The current global finance industry change discussions make no mention of a connection between the finance system's stability with socio-environmental sustainability. Rather, the debates are confined to questions about regulation and the role of government in a very traditional way. There is, in fact, an assumption that there is no connection between the two concepts and that the traditional leadership of nation-states and finance industry experts will lead us out of the mess.

2) The financial system requires “transformation,” rather than “reform.” Reform is defined here as change of rules within the current power structure. Transformation is defined as change in power relationships and roles in a system. Applied to the current financial crisis, a reform strategy would be under the direction of national governments (and their inter-governmental institutions like the International Monetary Fund), finance-economic “experts” and those in the finance industry. The product of reform would be changed rules and regulations, leaving these traditional power brokers in control. Transformation, on the other hand, would involve engaging many more stakeholder groups in a joint change process that would produce new principles, institutions, power-sharing and decision-making processes beyond the current nation-state/finance industry/expert hegemony.

The current operating assumption of the global finance change discussions is that reform is sufficient: only the traditional decision-makers are being engaged. The problem is not one of good intention, but rather of the ability of such a strategy to realize the scale of change needed. Tradition does not breed transformation – that requires the insertion of new and out-of-the-box perspectives. Reform led by traditional insiders almost invariably focuses upon processes of negotiation and mediation.

This investigation has assumed that to realize the integration of sustainability into finance, new perspectives must be brought in and that this means new processes must be developed. In other words, a change process of vision-building, new principle setting and transformation is needed.

The System Institutions

If the connection between stability and sustainability is to be given serious attention, this investigation aims to make clear (1) the current global public policy system for finance, and (2) current stakeholders' relationships to it. This will provide critical information for people interested in meaningfully addressing the future of global finance, and the stability-sustainability connections.

By the global finance public policy system (GFPPS), we mean the people and institutions that are working with a global public (government) mandate to address issues of finance broadly – banking, investment, and insurance services and products. The following organizations are considered key to this system:

1. **Bank for International Settlements (BIS):** This is arguably the most important and least recognized of all the organizations. It is the organization of central bankers, such as the Federal Reserve of the US and the Bank of England. Central bankers are appointed by governments for set terms to establish monetary policy – most often associated with setting interest rates. Usually they are also associated with regulation of banks.

Part of BIS is the Committee on Payment and Settlement Systems (CPSS), which sets standards with respect to payment, clearing, settlement and related arrangements – the bank analogue to the Global Postal Union.
2. **Financial Stability Forum (FSF):** This is *the* key coordinating organization for the global finance system. It brings together representatives from the other organizations listed here, to align activities and address key issues. For example, it was tasked with developing responses to the early 2008 global finance problems. Important to note is that it is formerly structured as part of BIS.
3. **G7 to G20:** These are gatherings of specific sets of countries. The G7 includes the largest western economies and Japan; the G20 includes those countries and a broader set such as China, Brazil and India. The G7 was the traditional summit gathering place for global finance decisions, led by finance ministers and their deputies and with annual gatherings that included Presidents and Prime Ministers.
4. **International Association of Insurance Supervisors (IAIS):** This brings together all the heads of the insurance regulatory bodies, and is based at BIS.
5. **International Monetary Fund (IMF):** Arguably the second most important institution, the IMF is mandated to support exchange rate stability. It does this most notably through loans to countries with often controversial “conditions” that influence countries public and fiscal policy.
6. **International Organization of Securities Commissions (IOSCO):** This brings together all the heads of the security exchange commissions (SEC as it is known in the US) that regulate stock exchanges.
7. **Organization for Economic Development and Cooperation (OECD):** As part of its broader mandate to coordinate information and data between its 30 member countries with the general goal of economic growth and financial stability, OECD plays host to meetings between central bankers and ministers of finance.

8. **World Bank (WB):** With a board made up of Ministers of Finance (US: Treasury) or their appointees (central bankers), the World Bank's focus is upon poverty reduction. Its role in global finance is one of lender/donor to poor countries.
9. **US Government:** Of course this is not a global entity like the others. However, the US Federal Reserve, Treasury and dollar play such a pre-eminent role, that any description of the global finance system would be incomplete without referring to it.

Worthwhile to note is that this summarizes just the public sector players. There are other private sector ones, such as the International Accounting Standards Board (IASB) that aims to standardize financial reporting, the Geneva Association that brings together the 80 largest insurance companies, and the Washington-based Institute of International Finance (IIF) which bills itself as "the world's only global financial institution," representing the interests of large private institutions in insurance, banking, and investment.

Of the public sector organizations, BIS, IMF, FSF, the G7 and the US play dominant roles. However, even with this reduced number, one observation is simply that the system is extremely complex. It has not grown out of a "grand design," but in an ad hoc manner. BIS was founded in 1930 with the original focus of reparation payments from Germany. The grandest design-like era followed World War II with the founding of the WB, IMF and shortly after that the pre-cursor to OECD. The G7 (G6) first met in 1976; IOSCO in 1983, IAIS was founded in 1994, FSF in 1999. The "system" is confused by often overlapping and sometimes competing institutions. Another notable observation for those working globally is the absence of the United Nations (UN) or any of its affiliated organizations. The UN Conference on Trade and Development (UNCTAD), for instance, only plays a supporting role, by providing technical guidance to finance and trade ministries and relevant accounting bodies.

The Current System Assumptions

Earlier we described two key assumptions inherent in this initiative's approach. Despite the ad hoc nature of the global public policy structure's development, there also are some ingrained assumptions shared across institutions that became apparent in analysis of the global system. These include:

The Nation-State is Supreme: Economic questions just after World War II were largely ones of national governments, and there was almost no private international investment. Civil society had not begun to have capacity or interest in global finance. This era is reflected in current global finance institutions with the absence of the notion of power- or decision-sharing with civil society or business. They have no formal status in the bodies (although the World Bank and IMF have consultative arrangements). Notable, of course, is that within business the commercial finance industry has a very close working relationship with government regarding finance industry issues.

Private Economic Growth is *the* Goal: Well-being is equated with increased GNP. Qualitative issues such as quality of life are of only secondary and subjective concern. Moreover, GNP is defined in limited ways and without regard to environmental and social capital, and little value is placed upon public sector investments.

Banking is Supreme: Until recently, when people spoke of international finance they equated it with banking and debt. The United States stood out among world economies as one where equities (stocks) actually had a substantial role. The dominance of banking is reflected in the power of central bankers both in the global institutions and at the nation-state level. An associated assumption is that banking, equity, asset funds (pension, endowments, etc.) and insurance are separate: Until recently legislative separation between banking, investment companies and insurance was orthodox.

Global Finance is a Side Show: Until recently there was little concern about the "globalization" of finance. Although after World War II there was a real desire to avoid the collapse of trade associated with the 1930s, trade was in tatters with only small percentages of GNP involved; communications and travel internationally were difficult and expensive. Only in the 1990s did direct foreign investment become significant. The few efforts at global financial harmonisation sought to achieve financial liberalisation in Southern countries, through OECD (the Multilateral Agreement on Investment, which was defeated), and through World Trade Organization (under the "Singapore Issues" to be developed after completion of the stalled Doha round). These efforts were driven by the interests of large private financial institutions seeking access to new markets, and instead have been furthered through regional and bilateral trade agreements. A comprehensive global approach responding to broader interests than large private financial institutions has been absent.

Wealthy Countries Should Dominate: Several of the organizations have membership restricted to developed, northern economies; others have voting categorically balanced in favor of these.

The US Dollar is Global Reserve Currency: Since World War II this has been the case.

Government Guides, Private Sector Does: There is a clear division of roles in the theory behind global finance. Government ownership of banks is to be highly exceptional – if ever.

Markets Will Self-Stabilize, Self-Regulate: This assumption was not where the global finance system started after World War II. Indeed, the lesson of the Great Depression was the opposite.

But with the “Washington Consensus,” by the end of the century self-regulation and the belief in markets as supreme mechanisms came to rule global public finance policy.

Hierarchy Rules: Global public policy systems in general are built with a mental model of local-regional-national-global levels of governance. One passes through the other.

Experts Lead Best, Aloofly: There is no significant tradition of consultation in the global public policy financial institutions – although over the past decade the IMF and WB have made some nods in this direction. Accountability and transparency, likewise, suffer under the assumption that non-participants either have or should have little to contribute. This is a technocratic world of numbers and financial instruments.

The Situation Today

Readers can make their own assessments of the legitimacy of these assumptions today, although they certainly are raised here because their validity is seen as highly contestable. Part of the challenge is that the world today is more complex: we do not have the wide open spaces, poor connectedness globally, fewer than 60 independent nations and a population of 2.5 billion as did the leaders of the post World War II moment. Today we also have vastly increased potential to handle complexity, but we need institutional structures and frameworks built to handle it.

Consultations in Asia emphasize that the current “global” financial crisis is seen as a “Western-caused” one, and therefore the world will not let the solution be led by the Western world that created it. Global engagement is key, and not only of stakeholder groups, but industry and government from outside the G20.

There are already trends that suggest that without broader engagement of governments, there will be increasing fragmentation of the “global” finance system. If governments cannot influence the global policy processes on finance, yet those processes impact economic security, then there will be alternative actions at regional and national levels.

The key insight of Thomas Kuhn who coined the term “paradigm shift” after observing discontinuities in physical scientific theory – such as movement from “the world is flat” to “the world is round” – was that such shifts occur when evidence that cannot be explained by the earlier theory builds up to such a point that a new theory is developed. Evidence in that case such as when the ship goes over the horizon the lower part disappears first. The theory was the world was flat, the assumption was that the ship disappeared into a speck in the horizon – until someone noticed that did not seem to be true.

We have the evidence of a rate of increasingly broad and deep global financial crises that suggests that there is something missing in the way the system is working: the Mexican financial crisis of 1994, the (east/southeast) Asian Crisis of 1996-97, and the current global crisis of 2008-09. The UN with a Commission on Global Finance is attempting to take leadership to develop a solution. The G20 is meeting to do the same thing. What is the way forward, to build a global financial system for the 21st century? We propose to begin with a focus on the organizations that are stakeholders in the system, and weave them into a process to develop the answers. Next we will take a deeper look at the system and the stakeholders in the system and their current relationships to it. Then we will discuss some possible ways forward.

Global Finance Industry by Stakeholder

By “stakeholder” we mean an identifiable group of interests – where the interests in a particular issue are distinct bundles of interests that may also have some overlapping commonalities. People and even organizations may belong to one or more stakeholder groups, although one group almost always is most important.

Interviews with people in finance and various mapping approaches (see Appendix A) led to identification of the following stakeholder groups that have distinct goals and roles:

1. Networks with multi-stakeholder strategies: A variety of initiatives are seeking to integrate concerns about decision-making and social-environmental impact on a more product- and technical level. (see Appendix B)
2. Public policy makers and regulators: This group includes political and administrative, macro (global), micro (national bodies, securities exchange commissions), lawyers, and treasuries. It has responsibility to ensure the finance system works in the public interest.
3. Academics working on public policy and finance: Scholars in diverse disciplines are investing the finance system with goals of understanding it and its role in broader society, and developing theoretical perspectives and policy options. Although those in finance and economics are most often associated with the system, academics in other disciplines such as sociology and political science are also actively engaged.
4. NGO: NGOs tend to focus upon issues of development, the environment, and the role of Southern countries with concerns about environmental and social justice. Consequently, they have mainly engaged multi-laterals like the World Bank and ignored the role of others including BIS.
5. Major asset owners: Including pension and sovereign wealth funds, these have a distinct role and set of interests around both control of and returns to their money. Labor unions, as representatives of asset owners particularly in pension funds, have been particularly active in finance reform issues.
6. Labor unions, as representatives of workers as employees in the invested companies and as investors, via their pension funds, are particularly active in finance reform issues.
7. Finance Industry Professionals: People who are at senior levels in finance, investment consultants and accountants, are key system players.
8. Corporations: Corporates are users of financial services – as opposed to the finance industry itself – and have a distinct set of concerns about the adequacy of financial services.

Distinctive and important qualities of these groups are summarized in Table 1.

Table 1: Finance by Stakeholder Group

Stakeholder finance group	Examples	Dominant goal	Key organizing structure	Key success factor (ability to...)	Perspective on finance
Multi-stakeholder networks	<ul style="list-style-type: none"> • UN Finance Initiative • Global Reporting Initiative (finance project) 	Integration of perspectives across sectors	Network	Integrate participant and network interests	A triple-bottom-line tool
Public policy makers/regulators	<ul style="list-style-type: none"> • Central bank • Deposit insurer • Int'l Monetary Fund 	Stability	State agency	Identify/enforce public interest rules	Object to control/direct
Academics	<ul style="list-style-type: none"> • Economist • Financial expert • Sociologist 	Intellectual clarity	Individual	Rigorously apply quality data	Object of study
NGOs	<ul style="list-style-type: none"> • Bank Track • Third World Network 	Community justice/rights/interest	Interest group	Mobilize community voice/support	Object of influence on interests
Major asset owners	<ul style="list-style-type: none"> • Pension fund • University Endowment 	Capital appreciation	Fund	Generate competitive returns	Tool for income
Labor unions	<ul style="list-style-type: none"> • Committee on Workers Capital • Trade Union Advisory Committee to the OECD 	Community justice/rights/interest	Labor union	Mobilize workers	Provision for workers' well-being
Finance industry	<ul style="list-style-type: none"> • Insurance • Bank • Investment company 	Profits	For-profit corporation	Apply/service capital profitably	Source of wealth
Business (other)	<ul style="list-style-type: none"> • Manufacturer • Retailer 	Profits	For-profit corporation	Apply diverse resources profitably	Tool to generate wealth

Transformational change processes involve reorganizing power structures, relationships and decision-making processes. Therefore, in such processes of particular interest are groups and sub-groups that can be placed in more than one of the dominant groups or work across groups. These are “translators” across groups, which understand the language, support the goals and reflect the logic of each group in which they participate. They can actually represent a forefront of new ways of organizing within a system.

In the finance system, of particular interest are multi-stakeholder networks. In the course of this initiative 11 global ones were identified, all founded within the last five years (see Appendix B). Their core work is, in fact, to integrate perspectives across business/government/civil society boundaries.

An important sub-group in terms of this investigation is social investment organizations, which are just emerging as global multi-stakeholder organizations that include social activist organizations and investment firms. They have a particular expertise in both the finance industry and the world of NGOs.

Emergence of New Principles and Goals

What is the purpose of the global finance system? This seems like a relatively simple question that deserves an answer. However, the response is contested and changing. The shifts can be seen in the missions of key financial institutions and an emerging debate around the principles that should guide the global financial system.

The goal statement for the (US) Federal Reserve Board illustrates the traditional approach:

“The Board of Governors of the Federal Reserve System and the Federal Open Market Committee shall maintain long run growth of the monetary and credit aggregates commensurate with the economy’s long run potential to increase production, so as to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates.”

In the same tradition the Bank for International Settlements states its purpose is to:

“...foster(s) cooperation among central banks and other agencies in pursuit of monetary and financial stability.”

Here the goals are framed in economic and financial terms, with the additional concern for employment in the Federal Reserve’s goals. More simply and directly the founding statement of the 10-year old European System of Central Banks says:

“The primary objective of the ESCB shall be to maintain price stability.”

However, added to this is:

“...without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2.” The objectives of the Union (Article 2 of the Treaty on European Union) are a high level of employment and sustainable and non-inflationary growth.

The objective of “sustainable growth” increasingly is part of part of the global finance public policy system. It is referred to in the OECD’s and IMF’s goals. However, how this goal is operationalized in comparison to the traditional ones is not clear.

To help frame the type of change that is necessary for the financial system, critics are speaking about the need for redefining its goals and, more commonly, defining a set of principles to guide their operationalization. Table 2 compares some recently developed principles in terms of their content with respect to four concerns.

The NSFAM principles are most comprehensive and also the only ones with a clear goal statement.

“The Economic and Social Purpose of Markets is to Create Long-Term, Sustainable Value...”

Both NSFAM’s and others’ principles can be divided into four categories defined in Table 2; only NSFAM’s and TUAC’s include all categories. The others are characterized by an exclusive focus upon ESG concerns, or a focus upon more traditional economic-financial-regulatory ones. This suggests that there is still work to be done among traditional insiders and innovative outsiders to bridge interests and speak to each other meaningfully.

Table 2: Principles for Global Financial System Design

(See Appendix C for the Statements)

	A Financial Sector Held Accountable for its Actions	Sound Governance and Regulation within all Levels of the Financial System	Coordinated Global Financial Markets	Incorporation of Environment, Social, or Governance (ESG) concerns
Network for Sustainable Financial Markets (NSFM) Principles	X	X	X	X
Principles from G20 Declaration	X	X	X	
Friedrich Ebert Stiftung (FES) Principles	X	X	X	
Trade Union Advisory Committee to the OECD	X	X	X	X
(UN) Principles for Responsible Investment				X
Equator Principles				X
UNEP Finance Initiative				X
Islamic Finance Principles				X

A Way Forward

The finance crisis offers a unique opportunity to create a global finance system for the 21st century that vastly enhances stability, wealth, social well-being and environmental sustainability. Current responses to the global financial crisis will not produce this type of system. The processes only engage traditional insiders and their institutions – those that presided over the development of the crisis. There is a vacuum of vision about how to create a process that will produce the scale of change needed. Without vision, leadership and the right processes, we will squander the opportunity. And we will condemn ourselves to repetition of the crisis.

The significance of the challenges – both in terms of their importance and the difficulty in realizing them – were fully recognized by participants in the second GFI meeting in January 2009 at Harvard Business School¹. They did not pretend to be, in any way, a “representative” group. However, they were a group of leading critical and diverse innovators in financial thinking. The group included people from multi-stakeholder networks, responsible investment, labor, academia, environmental concerns, foundations, and traditional finance. They met out of a common long-term interest in the financial system, active work to influence it, a desire to learn what each other was doing, and to explore possible ways ahead.

The group sees a unique opportunity to realize significant change arising from the current global financial crisis. However, it recognizes need both for a short-term and medium-term action plan. A short-term plan aims to influence national-level discussions about re-regulation that will quite possibly result in legislation within the next six months.

The group’s medium-term plan aims to bring real innovation into the discussions about the 21st century global financial system. This requires significant changes to the current process of the traditional financial system insiders – the government finance policy makers, central bankers, regulators, traditional academics and the commercial finance industry. These changes are listed below as “goals.” How to realize these changes is described in the strategy and activities below. The people proposing this Global Finance Initiative are listed in Appendix D.

The Vision

A vision for the future global financial system would be an outcome of realizing the goals and activities. However, underlying the critique of the current process of change is a vision of a different process of change marked by the characteristics embedded in the goals.

The goals call for a broadly engaging, deliberative and thoughtful process on a global level. This pushes the frontiers of any sort of process that has been developed to date. It presents an opportunity to begin meaningful development of the concept of “global citizen” through public consultations and deeply critical engagement. Yet, the product must be one that speaks to our broad global future.

One such model that reached in this direction is the World Commission on Dams (WCD). This was a two-year multi-stakeholder process of global public policy institutions (the World Bank in a lead position), private sector dam builders, and critics of large dams from environmental and community-based NGOs. Those who met at Harvard called for a World Commission on Global

¹ Hosted by the HBS Social Enterprise Governance, Accountability and Performance Program.

Finance (see Appendix E that describes how such a Commission could function; Appendix F for the media release).

The Goals

The proposal is to undertake activities that force integration of the following concerns into the process of global financial system change. The process must be:

1. **Foundational:** Change must be driven by addressing profound questions about the purpose of the financial system and the principles that direct its actions.
2. **Comprehensive:** Change must encompass the connections between accounting systems, currencies, regulatory systems, economic structures and all parts of the financial system.
3. **Inclusive:** In addition to the traditional insiders, bring in other groups including responsible investors, multi-stakeholder groups working on finance issues, asset owners, labor, NGOs and critical academics. And make participation truly global.
4. **Systemic:** True systemic risk is not only financial. The change must connect financial stability to the real economy, social equity, and environmental sustainability. This reflects “triple-bottom-line” logic: paper economies support bubbles and do not generate real wealth; increased income differentials lead to social violence and destruction of assets and wealth-generation; continual erosion of natural capital will lead to economic collapse.

The Strategy

The strategy arises from the perception that there are distinct and relatively poorly connected stakeholder groups that have, in fact, some common interests and visions. Working separately, their chance for influence is relatively poor; working together to create a unique shared “space” to collaborate and share is the best route to realize impact. Following is the core coalition:

- **Responsible Investors, Asset Owners and Managers:** For more than a decade, non-financial concerns are increasingly integrated into investment decisions. First led by “social investors,” this has expanded into a global network of national/regional Social Investment Forums, the UNEP-Finance Initiative, Principles for Responsible Investment, the Network for Sustainable Financial Markets and the Global Reporting Initiative’s finance project. Moreover, insurance companies are perhaps the leaders in integrating climate change concerns into investment; large endowments are pioneers in social impact. In addition there are Sovereign Wealth Funds that incorporate principles beyond simple financial ones. Many trillions of dollars of investment are involved. This group has an important contribution to make given three particular strengths:
 1. Ability to cross stakeholder boundaries;
 2. Mobilization of progressive asset owners;
 3. Knowledge of program/product-level changes that can integrate sustainability concerns into finance.
- **Academics:** To date only traditional economists and financial academics have been brought into the official debate about the future of the financial system. However, there are a large number of critics from these fields and others such as sociology and political

science who have financial system expertise to contribute. The particular strengths of this group are with theory-building, analysis and policy development.

- **NGOs:** This includes those traditionally working on the World Bank/IMF, consumer groups, environmentalists, human rights activists and the broad universe represented by CIVICUS. The particularly important contribution of this group is its power to press for a broader public and participative debate to bring in the innovators and ensure decisions are not left to the traditionalists.
- **Labor Unions:** Labor is perhaps the best organized and has a long history of critique of the finance system.

There are two particularly important voices that labor represents in finance reform. One is the concerns of workers who are buffeted by the impact of “financialisation” of the economy, including corporate short-termism and “shareholder value” pressure on companies, wage compression, debt-financed consumption, etc. The second is as a voice for those who own trillions of dollars invested on their behalf, most often in retirement funds

- **Non-G7 Governments:** A large part of the world is not represented within the G7. Although the “G20” is promoted as the new framework, the actual participants in that group include representatives from the Europe Union, the European Central Bank and the seven global public policy institutions. This means that the power of the traditional global brokers is still overwhelming. There is enormous potential for dissatisfied governments to join development of an alternative path to global finance transformation.

Broadening participation also means bringing in people from throughout the world meaningfully, not simply leaving real decision-making with a small group of developed countries. This coalition must be truly global.

Although this is the core stakeholder groups that will be brought together, individuals and organizations outside these groups who are supportive of the goals will be welcomed. As a group, these stakeholders possess the theoretical and practical knowledge of the workings of finance, and the social connections and networks to realize the goals. They face their own challenges in coordinating internationally and need support to achieve international participation.

The Action Program

Distinct but mutually reinforcing actions are proposed:

1. **Defining and promoting *Principles for Finance*:** Responding to the details of finance regulation is beyond the capacity of most. However, people can and should be engaged in defining the purpose of the finance system and the principles that should direct legislation and structures. A process will create a global engagement process to define the principles.
2. **Creating a uniting on-line site:** A website that creates connections between the strategy stakeholder groups will be established to:
 1. Nurture cross-group understanding and information sharing
 2. Generate cross-group action
 3. Vet and amplify exciting, innovative ideas

3. **Forming swat team responses:** The finance debate has a bewildering array of technical issues. A swat team of ready experts will support speedy responses to such issues as they advance on the finance reform agendas.
4. **Building capacity:** Enhanced capacity among the stakeholder groups for discussing finance issues is critical to advancing the agenda.
5. **Building bridges with decision-makers:** The groups listed in The Strategy have weak connections with global government public policy finance institutions – particularly the Bank for International Settlements, G7-20, and the Financial Stability Forum. Building bridges is necessary to advance this agenda.
6. **Creating an accessible database:** A wiki-type database of decision-makers and opinion-shapers in different countries/organizations will provide an important role in identifying influencers and working with them effectively.

Conclusions

Fairness, Effectiveness, Transparency and Accountability are Impossible to Achieve with the Current Global Finance Public Policy System

There really is a “global finance public policy system.” but it is opaque and confusing. The system is characterized by division which hinders fairness, effectiveness, transparency and accountability. One is an important division between institutions that have a global mandate and those that are national (or for Europe to some extent regional). The former generate policy, and by-and-large it is the latter that (decide whether to) implement it. This inevitably increases the gap between theory and practice.

And of course there is a division between the influence of the G1 (the United States) expanded to G7 in the global public policy financial system, and “all the rest.” Even with the expansion to the G20, the actual participants in that group include representatives from the Europe Union, the European Central Bank and the seven global public policy institutions. This means that the power of the traditional global brokers is still overwhelming. The global financial system is of importance to all peoples in all nations, and must be guided by the interests and values of all.

Another key division is between traditionalist insiders and innovative outsiders. Most powerful among the insiders are the wealthy countries’ central bankers. They are clearly in control of the most influential parts of the system: Bank for International Settlements and the Financial Sustainability Forum. Some may argue that Finance Ministers are more influential, but also notable is that Finance Ministers come and go while central bankers stay for fixed and more lengthy terms. In the end, it is an unelected group of people who are deliberately shielded from accountability mechanisms who are most influential. Although the shielding makes sense for national-level duties, there are real questions about whether it is appropriate to shield key decision-makers at the global level.

The other traditional insiders are the commercial financial institutions. Certainly there is a legitimate role for private, profit-making financial institutions. However, they have an inordinate influence upon global finance in comparison to other stakeholders. The fact that BIS is headquartered in Switzerland – a land famous for its banking secrecy – epitomizes the belief that finance and transparency are at odds. There are strong and enduring ties between the public policy and commercial financial system. Indeed, in the United States and other countries the last decade has been marked by a breakdown of the traditional division between personnel, with people increasingly shifting between commercial and public sector employers.

The lack of accountability is perhaps most evidenced by the very weak role of most stakeholders in the global financial system. The system is not simply one with a large group of close runner-ups in terms of voice in the system. There is essentially no role for consumers, NGOs, labor, responsible investors, asset owners and critical academic voices.

Today’s Challenge Requires Transformation – Not Reform

There is a growing movement to discuss the finance system in terms of principles and goals. Given the gap between today’s finance system and principles of fairness, effectiveness, transparency and accountability, simple reform is insufficient. Reform is associated with changes that are defined by traditional power-brokers. More than the technical rules and regulations need changing: the very goals and principles that guide the finance system need defining.

Successful transformation processes are characterized by all stakeholders in a system coming together to reinvent the system by asking foundational questions about purpose, principles, and roles. Participants must all be ready to change their roles in response to definitions of purpose and principles.

The value of such a process is that a transformation process inevitably brings in new stakeholder voices and new perspectives. This environment of challenging views generates innovation, new ideas and novel strategies. This suggests that stakeholders in the system should convene to (1) rethink a vision of the system – its purpose and principles – how things would be if it worked really well, (2) how their roles should shift to realize that vision based upon the understanding that *everyone's activities* will have to change, and (3) set up a process to implement the changes.

A Transformation Process Must Incorporate Four Principles

The depth of this type of change requires developing a process that incorporates four principles. The process must be:

1. **Foundational:** Change must be driven by addressing profound questions about the purpose of the financial system and the principles that direct its actions.
2. **Comprehensive:** Change must encompass the connections between accounting systems, currencies, regulatory systems, economic structures and all parts of the financial system.
3. **Inclusive:** In addition to the traditional insiders, bring in other groups including responsible investors, multi-stakeholder groups working on finance issues, asset owners, labor, NGOs and critical academics. And make participation truly global.
4. **Systemic:** True systemic risk is not only financial. The change must connect financial stability to the real economy, social equity, and environmental sustainability. This reflects “triple-bottom-line” logic: paper economies support bubbles and do not generate real wealth; increased income differentials lead to social violence and destruction of assets and wealth-generation; continual erosion of natural capital will lead to economic collapse.

Such Transformation Processes are Feasible

Creating a transformative process for global finance is a challenging proposition. However, its feasibility and guiding lessons for such a process are suggested by strategies to address similar scale challenges. The strategies have had varying degrees of success. Social-political-economic examples include transformation from apartheid in South Africa, the collapse of the Soviet Union, the economic transformation of China. More technical examples of tackling transformation are found with the World Commission on Dams (WCD), the Forest Stewardship Council, the Global Reporting Initiative and the Microcredit Summit Campaign.

A successful transformation process for the finance system must be broadly engaging, deliberative and thoughtful process on a global level. It must produce innovation. While the size of the transformation challenge pushes the frontiers of process that has been developed to date, it presents an opportunity to begin meaningful development of the concept of “global citizen” through public consultations and deeply critical engagement. The product must be one that speaks to our global future.

One such model that reached in this direction is the World Commission on Dams (WCD). This was a two-year multi-stakeholder process of global public policy institutions (the World Bank in a lead position), private sector dam builders, and critics of large dams from environmental and community-based NGOs. The WCD held consultations with the public around the world; it undertook leading research into the issues; and it developed work around core themes to be able to make more concrete the way to move ahead.

In summary, there is an enormous vacuum of leadership in the presence of tremendous opportunity. Currently designed processes are not going to produce a 21st century financial system. We have the knowledge and ability to create an incredible financial system that will support realizing our highest aspirations as a diverse global community. Let us realize the opportunity.

Appendix A Stakeholder Maps

The concept of the “global finance public policy system” is still quite vague, even after identifying these key organizations and stakeholder groups. In order to make it all more concrete and accessible, this initiative used three visual analytic mapping approaches. These help to understand the organizations, their respective roles and their relationships. They are generally associated with the broad approach called “social network analysis.”

Web Issue Crawler: The Internet is structured around sites that have unique URL addresses. And most sites have (hyper)links to other sites that you click on to take you to other sites or pages. These are inserted because they have more detailed information with regards to a topic (including, of course, ads), because the host wants to connect people to allies or colleagues, or because they may be foes on an issue.

The connections between unique URLs provide the basis for mapping relationships by doing a web crawl in an issue arena. Based upon an initial set of URLs known to be in an arena (the “seed” URLs), a software program can draw the relationships between organizations’ web links, to give a diagram of the virtual network of the organization.

Organizational (Participant-Based) Value Network Analysis:² Like the web issue crawler, this approach describes relationships between organizations. However, it also describes what is being exchanged – what the relationship is producing. Moreover, it can be applied to intra-organizational analysis to understand relationships and activities of particular organizations in more depth.

Role-Based Value Network Analysis: This methodology provides visual representation of an issue system like global finance in terms of *roles* and *exchanges between roles*. It is particularly useful for thinking of a system comprised of networks rather than organizations. This is very useful when you want to understand which roles are necessary for a healthy issue system, which roles need more attention, and ones that might be so well resourced that competition is creating problems. One organization usually plays more than one role, and a role-based analysis removes the confusion of overlapping and competing roles that two organizations may be playing. It also “depersonalizes” a system to help people move away from the blinders that organizational loyalties and opinions usually generate.

² ValueNet Works™ Analysis is a mapping methodology developed by Verna Allee. It can be used to present both participant-based and role-based descriptions of a particular system.

The Maps

The web crawl map for the Global Finance Public Policy Organizations (GFPPOs) is seeded with URLs of what we have identified as the critical and influential actors in the global finance public policy arena. The resulting map (Diagram 1) is corroborating evidence that, on the basis of measuring colinks, the influential organizations (by proxy of their web sites) are central. Colored red in this diagram, these site nodes are well connected, centrally located and large in size.

In addition to their presence in the map, the relative location of the nodes is also telling. The web crawl shows the bis.org node (Bank for International Settlements) to be in the center of the map. Their central location and size of the node is an indicator that BIS has many inlinks from a wide range of other web sites.



Diagram 1: Web Crawl of Global Finance Public Policy Organizations (GFPPOs)

As indicated by the diagrams of BIS (Diagram 2) and FSF (Diagram 3), these two organizations are each central to a network of other organizations. BIS, for its part, is the central secretariat for several committees, supervisory groups, and international associations. BIS in turn is funded by central banks. Policy decisions and advice emerge from the various committees and supervisory associations which are then incorporated by the central banks into their decision making.

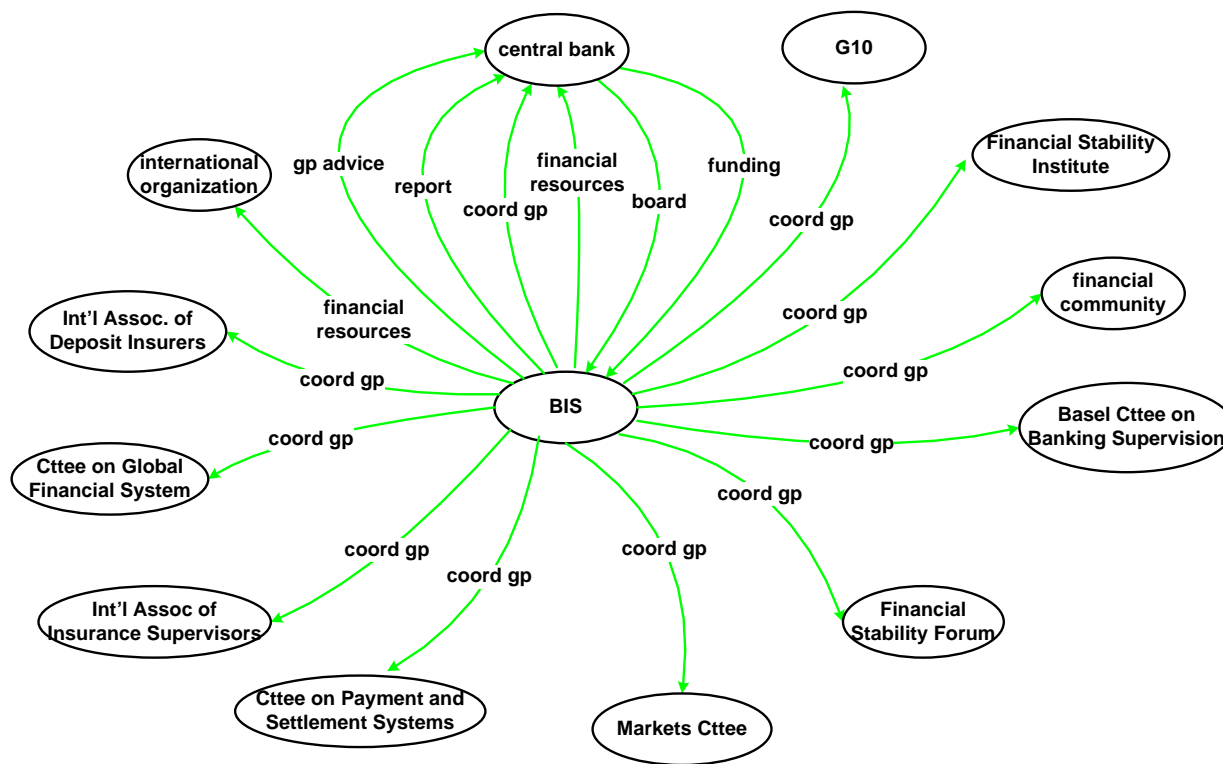


Diagram 2: Inter-Organizational Map of the Bank for International Settlements

FSF, coordinated and funded out of the BIS, is tasked with providing recommendations on stabilizing the finance system to the BIS as well as other committees and associations coordinated by the BIS. The central banks, the European Central Bank, the World Bank, and the International Monetary Fund all receive the FSF reports and recommendations. The FSF, then, is a critical and central policy recommending body of experts that influences and in turn is influenced by central banks and other public policy organizations.

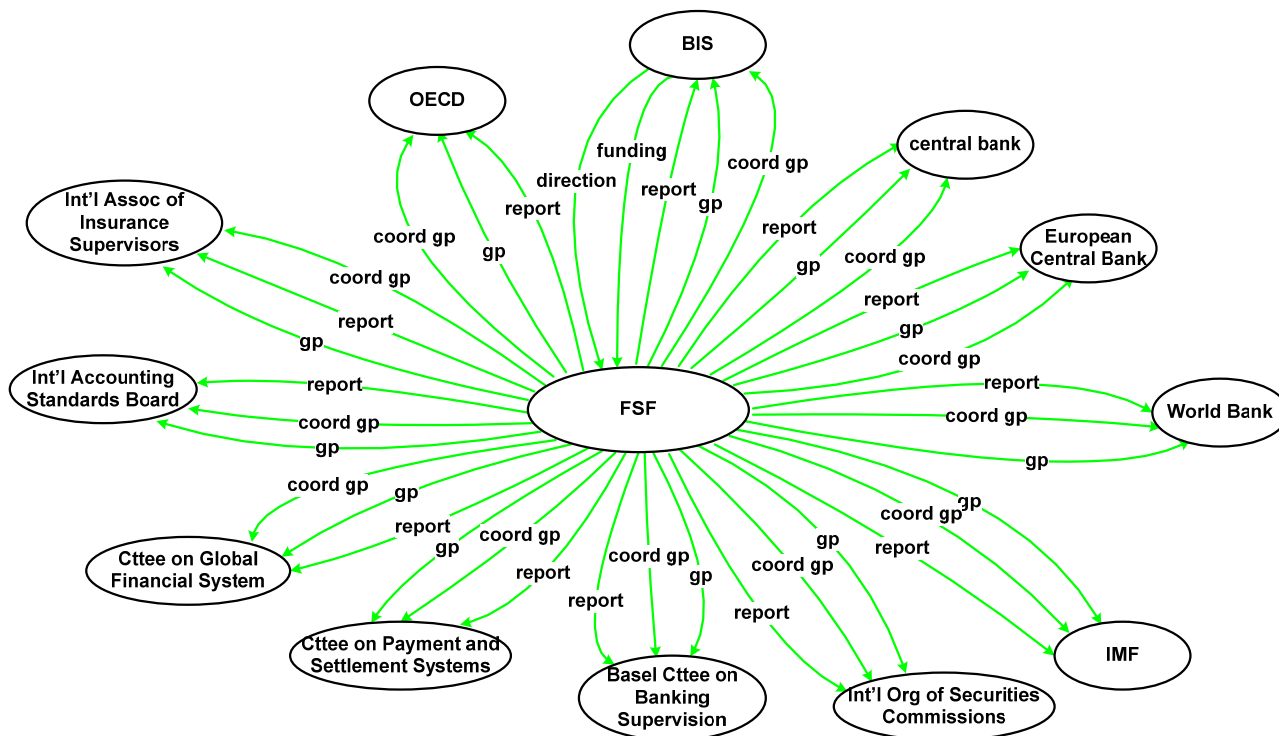


Diagram 3: Inter-Organizational Map of the Financial Stability Forum

Diagram 5 maps the relationship between commercial financial institutions and the global public policy system. By commercial finance we mean banks, insurance companies, commercial pension funds, and private investment firms. Of the main actors identified as central to the global finance public policy organizations, IOSCO and IAIS do not appear. Only the OECD, BIS, and IMF appear on this web crawl map. Of these, BIS is the largest, again supporting the view that its role is central.

Within this web crawl map, there is a sub-network of responsible investment organizations center left. These include Green Century, Social Funds, and Ceres.



Diagram 5: Commercial Finance and Global Public Policy

Appendix B

Multi-Stakeholder Initiatives in Global Finance

1. The Development Finance Group

The Development Finance Group is the umbrella organisation of Debt Relief International (DRI), the Technical Office for the Heavily Indebted Poor Countries Capacity Building Programme (HIPC CBP) and Development Finance International (DFI), the Technical Office of the Foreign Private Capital Capacity Building Programme (FPC CBP).

2. Enhanced Analytics Initiative

The Enhanced Analytics Initiative is an international collaboration between asset owners and asset managers aimed at encouraging better investment research, in particular research that take account of the impact of extra-financial issues on long-term investment. The Initiative currently represents total assets under management of c. €1.8 trillion (c. US\$2.4 trillion).

3. Equator Principles

The Equator Principles have been developed by commercial financial institutions working with the International Finance Corporation and others in order to ensure that the projects they finance are developed in a manner that is socially responsible and reflects sound environmental management practices. Principles Project financing, a method of funding in which the lender looks primarily to the revenues generated by a single project both as the source of repayment and as security for the exposure, plays an important role in financing development throughout the world. Project financiers may encounter social and environmental issues that are both complex and challenging, particularly with respect to projects in the emerging markets.

4. Global Compact

The Compact's Finance Project seeks to mobilize a committed group of financial-industry leaders to advance current thinking in investment research. The Finance Initiative brings together leading investment, asset management and brokerage houses to develop guidelines and recommendations on how financial analysts could better factor social and environmental criteria into their analyses of companies. The Initiative will focus on securities brokerage and asset management and the associated sell-side and buy-side research functions.

5. Global Reporting Initiative

The Global Reporting Initiative is developing the world's most widely used sustainability reporting framework and is committed to its continuous improvement and application worldwide. This framework sets out the principles and indicators that organizations can use to measure and report their economic, environmental, and social performance. It is also developing a Finance Industry-specific framework.

6. International Monetary Convention Project

The World Economic Forum and the Reinventing Bretton Woods Committee, in cooperation with selected finance ministries and central banks of G-20 countries, are organizing a two-year series of public-private roundtables on the future of the international monetary system. This project seeks to provide input into the deliberations of policy-makers by convening them for off-the-record sessions with some of the world's leading private sector and academic authorities.

7. Investors Network on Climate Risk

This is a \$6 trillion network of investors that promotes better understanding of the financial risks and opportunities posed by climate change.

8. Microcredit Summit Campaign

The Microcredit Summit Campaign supports attainment of goals for the microcredit community globally, by bringing together the diverse stakeholders engaging in microfinance.

9. Principles for Responsible Investing

There is a growing view among investment professionals that environmental, social and corporate governance (ESG) issues can affect the performance of investment portfolios. Investors fulfilling their fiduciary (or equivalent) duty therefore need to give appropriate consideration to these issues, but to date have lacked a framework for doing so. The Principles for Responsible Investment provide this framework.

10. Social Investment Forum Global Network

Social investors and their organizations have national and regional networks that they are now forming into a global network.

11. UN Finance for Development

The UN Finance for Development initiative grew out of United Nations system-led development of agreements and commitments on global finance. This includes the International Conference on Financing for Development, as contained in the Monterrey Consensus, as well as financing for development-related aspects of the outcomes of major United Nations conferences and summits in the economic and social fields, including the development goals set out in the United Nations Millennium Declaration.

12. UNEP – Finance Initiative

UNEP FI works closely with over 160 financial institutions who are signatories to the UNEP FI Statements, and a range of partner organizations to develop and promote linkages between the environment, sustainability and financial performance. Through regional activities, a comprehensive work programme, training programmes and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practices at all levels of financial institution operations.

Appendix C

Principles for Financial System Reform

1. Friedrich-Ebert-Stiftung

Key principles for regulatory reform:

- Regulation must be comprehensive, covering all financial activities, instruments, institutions and markets, including off-balance sheet activities and offshore centers.
- Regulatory reforms should have a strong counter-cyclical focus to prevent the excessive buildup of leverage during booms.
- The governance of such a system would likely be based on a well-functioning network of national and regional authorities supervised by a global financial regulator.

2. Trade Union Summit to the G20 Crisis Summit

The blueprint for reregulated financial markets that ensures stable and cost-effective financing of the real economy, must include:

- Prohibiting all forms of off balance transactions
- Submitting foreign investments and capital flows to proper domestic regulation
- Promoting community-based financial services
- Improving consumer protections
- Enhancing the social purpose of pension schemes to provide good retirement
- Establishing an international regime for taxing financial transactions
- Ensuring that central banks are publically accountable for their actions
- Ensure active supervision for banks and large financial conglomerates
- Regulating private investment firms
- Regulating credit risk transfers
- Adopting controls to limit speculative behaviors in trade exchanges
- Curbing corporate short-termism

3. G20 Declaration: principles for reform

- Strengthening Transparency and Accountability
- Enhancing Sound Regulation
- Promoting Integrity in Financial Markets
- Reinforcing International Cooperation
- Reforming International Financial Institutions

4. Network for Sustainable Financial Markets

- The Economic and Social Purpose of Markets is to Create Long-Term, Sustainable Value, which Requires the Efficient Allocation of Capital towards that Goal

- Sustainable Value Creation Requires that Hidden Risks and Rewards be Identified and Valued
- Balance Between Short-Term and Long-Term Views is Needed
- Market Participants Must Take Responsibility for Their Actions
- Governance at All Financial Institutions Should be Improved
- Better Alignment of Financial Interests is Needed to Reduce Agency Costs
- A Coordinated Global Approach is Needed to Better Protect the Financial Markets

Principles for investment

1. United Nations Principles for Responsible Investment

Goal: to help investors integrate consideration of environmental, social and governance (ESG) issues into investment decision-making and ownership practices, and thereby improve long-term returns to beneficiaries.

Principles:

- Incorporate ESG issues into investment analysis and decision-making processes.
- Active ownership and incorporate ESG issues into ownership policies and practices
- Seek appropriate disclosure on ESG issues by entities in which investments are made
- Promote acceptance and implementation of principles within the investment industry
- Work to enhance effectiveness in promoting the principles
- Report on activities and progress on reporting the principles

2. Equator Principles

Signatories will not finance projects that do not adhere to the following principles intended to promote awareness of Social and Environmental effects of projects

- Review and Categorize – the project based on the magnitude of its potential social and environmental impacts/risks
- Project completes a social and environmental impact assessment prior to any work
- Project meets performance standards and EHS guidelines
- Action plan must include ways to build upon, maintain or establish a social and environmental management system
- Consult with project affected communities
- Establish a grievance mechanism as part of the management system
- Secom to an independent review
- Undergo independent monitoring and reporting
- Report to EPFI

Principles of Islamic Finance

The main principles of Islamic finance include:

- The prohibition of taking or receiving interest;
- Capital must have a social and ethical purpose beyond pure, unfettered return;
- Investments in businesses dealing with alcohol, gambling, drugs or anything else that the Shari'ah considers unlawful are deemed undesirable and prohibited;
- A prohibition on transactions involving masir (speculation or gambling); and
- A prohibition on gharar, or uncertainty about the subject-matter and terms of contracts – this includes a prohibition on selling something that one does not own.

Because of the restriction on interest-earning investments, Islamic banks must obtain their earnings through profit-sharing investments or fee-based returns. When loans are given for business purposes, the lender, if he wants to make a legitimate gain under the Shari'ah, should take part in the risk. If a lender does not take part in the risk, his receipt of any gain over the amount loaned is classed as interest. Islamic financial institutions also have the flexibility to engage in leasing transactions, including leasing transactions with purchase options.

Traditionally an Islamic bank offers two kinds of services:

- Those for a fee or a fixed charge, such as safe deposits, funds transfer, trade financing, property sales and purchases or handling investments; and
- Those that involve partnerships in investments and the sharing of profits and losses.³

³ Rowey, Kent; July, Charles, Fevre, Marc. *Islamic finance: basic principles and structures*. Freshfields Bruckhaus Deringer. London, United Kingdom. 2006.

Appendix D Harvard Group Global Finance Initiative Proposing Team

	Last Name	First Name	Relevant Networks	Organization (for identification purposes only)	Job Title
1.	Bhattacharya	Amar	G24 countries	G24	Director
2.	Burke	Sara	FES' global network and civil society UN connections	FES – Friedrich-Ebert-Stiftung	Policy Analyst
3.	Chan	Michelle	Friends of the Earth Bank Track	Friends of the Earth – United States	Program Manager, Green Investments Project
4.	Flannery	Sean	State Street Bank		Chief Investment Officer of the Americas (frmr)
5.	Griffith-Jones	Stephany	Academics UN Commission	Institute for Policy Dialogue	Executive Director
6.	Habbard	Pierre	International Trade Union Confederation Global Reporting Initiative	TUAC – Trade Union Advisory Committee to the OECD	Sr. Policy Advisor
7.	Henderson	Hazel	Henderson.com Ethical Markets	Ethical Markets Media (USA & Brazil)	President
8.	Khagram	Sanjeev	Harvard Business School iScale	iScale	Lead Steward/CEO
9.	MacLetchie	Claire	Asian investors	ASRIA – Association for Sustainable and Responsible Investment in Asia	Executive Director
10.	Srinath	Ingrid	NGOs globally	CIVICUS	Secretary-General
11.	Thamotheram	Raj	Responsible investors NSFM – Network for Sustainable Financial Markets	AXA Investment Managers	Director of Responsible Investment
12.	Underhill	Geoffrey	Academics on global financial issues	University of Amsterdam, Amsterdam School for Social Science Research	Professor
13.	Uzan	Marc	Regulators Governments	Reinventing Bretton Woods Committee	Executive Director
14.	White	Allen	Corporation 20/20 Global Reporting Initiative	Tellus Institute	Senior VP

Appendix E

The World Commission on Financial Globalization

Reflections from the future:

A Novel Approach to the Global Finance Crisis

Steve Waddell: swaddell@scalingimpact.net
Global Finance Initiative – Senior Project Manager

Dec. 4, 2012 – Ashra Amar sat in her chair with a contented sigh. The World Commission on Financial Globalization was wrapping up today. It had been three years of hard work – but very rewarding work. She felt confident that not only were the ideas for the 21st century financial system clarified, but they were supported by a broad spectrum of stakeholders AND there was good progress in actual building relationships and new organizations along with reform of some of the old ones.

Not that there hadn't been big fights along the way. How could there not be, given the political and financial power dynamics involved? In particular, Ashra reflected that she thought everything was going to unravel around the “global credits” plan to replace the reserve currency role of the US dollar. It required a big shift in the US's traditional desire for domination...that wouldn't have been possible without Obama personally intervening, Ashra thought. It required some pretty imaginative work to devise commitments to develop what is essentially the first world currency and support the scale of international funds flowing between saving and spending countries. The solution is fitting for a globalized system, and still permits a greater degree of local autonomy beyond traditional central bank control than under the old system.

That type of solution wouldn't have been possible without the three streams of activity that the Commission led – backed by a \$75 million budget. Oh that budget, and the trouble some people made about it! But it was actually the private sector that stopped the squabbling by pointing out the trillions of dollars at stake. And the private sector was so beat down after the 2008 implosion that they were willing to share control over it and the Commission with civil society and government representatives. Now, Ashra thought, we've actually got a proper global financial tax proposal agreed to, so the organizations producing global public goods and a robust financial system will be properly funded.

But the three streams of activity were critical to get all the political dynamics and commitments aligned. Well, almost aligned Ashra grimaced, thinking of the withdrawal at the last moment of the Russian participants and the concerns of the conservatives in the US who kept on protesting the very idea of “global regulation.” Surprisingly the major protests hadn't come from the finance industry – but how could they really protest, given the debacle they caused and the fact that governments still were major shareholders? No, it was those pesky conservative theorists, that independent “every person for themselves” strain that is so deeply rooted in the American psyche that was still making things difficult.

Ashra thought that the action research stream of activity was particularly powerful. Well, it was “action research” to her, but it was “pilot projects” in the Commission parlance. A good portion of the budget was allocated to innovative proposals that came in for experimenting with new ways of organizing finance. It was really the cross-stakeholder groups like the Enhanced

Analytics Initiative, Principles for Responsible Investment and the Network on Sustainable Financial Markets that benefited from the pilot project program. They already had the relationships in place and were working on innovations that could be scaled up.

And there was that very impressive project of all those Social Investment Forms joining with the security exchange commissions of the world to get some real movement in the investment industry. The Brazilian and South African exchanges really took leadership with it and shamed the Americans into participating. And then the Sovereign wealth funds as major asset owners finally started speaking up. The Islamic ones that were so critical about interest payments really split the finance industry so it had to admit to the need to accommodate diversity.

But some people were particularly pleased with the more traditional research stream of efforts of the Commission. Phew. Starting with that global meeting of academics to agree upon a research agenda had been a bit of a mistake – they started to push for such idiosyncratic and small picture priorities. But then, like a Phoenix out of ashes, they agreed upon that Council of 12 Academics to take the lead. And it actually included not just traditional finance and economics types, but sociologists and environmental economists, too. People who thought about new measurement systems. Even academic critics would have to say the product was pretty impressive. They seeded studies that responded to traditional perspectives and new ones so concerned about the connection between stability in finance and sustainability. And the traditionalists were, by and large, won over. That shock of 2008 really had removed the underpinning assumptions of the traditionalists and opened them up to some broader perspectives. Why, they even agreed to fundamentally changing the system of national accounting to include government investments and changes in environmental capital. Although they couldn't quite go all the way and follow Bhutan with an "Index of Happiness" as the measuring stick.

In fact, it turned out that the phrase "we're all Keynesians now" that rattled around during 2008-09 ended up being replaced by "we're all sustainable financiers now." All that money pumped into the system in the perfect Keynesian way ended up proving in the end that Keynes' solutions were not sufficient for the 21st century. Things had become too complex, events moved too quickly, environmental and social equity questions were too important. The very meaning of money had shifted too far and the role of the nation-state was too weak to do magic on their own. Although there was still plenty of controversy, an entirely new perspective appeared to be emerging.

It was really the stream of activity with the world-wide public events and consultations that built the legitimacy of the Commission, though. And without that, nothing could have been accomplished. A total of 280 public events were held, where people helped design the 21st century global financial system. These were pretty impressive, held over a period of several weekends in most cases. People really got to both learn about the traditional system, say what they wanted changed, and then actually deal with the challenges of how the changes could become reality. There's now a broad-based public capacity for articulately voicing concerns about the financial system.

The consultations complemented the events. These started with specific stakeholder groups, then built to a process of mixing the groups. Ashra remembered that event in Sao Paulo where she thought people might shoot one another at one point. They learned to insist that the separate groups actually get some training conflict, and buy into a facilitated process before having the mixed groups. But after that, when the different stakeholders actually listened to one another, they really came up with some great ideas. Who would have thought that they would come up

with a realistic proposal to collectively organize central banks? Well, central financial agencies as they were now called.

But anyone looking at the World Commission would have to agree that it would never have been so successful if it had not managed to get the early commitment of such a diverse group to start with. Those 21 Commissioners really did hard work, making sure the board discussions really addressed the hard issues and the diverse perspectives. But what a headache it was, getting governments and business to agree to such an open process. It had taken some pretty powerful demonstrations by civil society to protest the old inside-boy approach...well, slightly reformed tradition of the G20, Bank for International Settlements – essentially finance ministers and central bankers. Luckily there were some powerful visionaries who came forward, and over the previous decade they had built some good relationships with people in leadership positions in the north and south, civil society and labor. But what other way forward was there? Everyone admitted that no one had the answers and that we needed innovation...and that doing it the way it had always been done would produce what it had always produced.

It was that early on challenge around principles as the basis of the financial system that gave traction to the protests. The old boys' networks could not oppose transparency and accountability – after all, they'd officially been promoting them for years. And how could you really have those without participation? Ashra smiled as she recalled that was the key question that led to the formation of the Commission.

Appendix F Media Release

Finance Stakeholders Call for World Commission on Global Finance

For release March 26, 2009

A diverse group of finance reform advocates is calling upon G20 to create a World Commission on Global Finance. “The current reform process is wholly inadequate,” says group spokesperson Dr. Sanjeev Khagram Harvard Business School Wyss Scholar and World Economic Forum Youth Global leader.

The call comes from a group formed at a meeting at the Harvard Business School in January (list attached) and follows 14 months of consultations that included four dozen interviews and a survey with nearly 100 respondents working in the global finance arena. These experts see that the current approach is based upon traditional insiders who presided over development of the current crisis as incapable of producing the scale of innovation that is needed. The proposed World Commission structure and process should respond to four debilitating problems with the current approach. The process must be:

1. **Foundational:** Change must be driven by addressing profound questions about the purpose of the financial system and the principles that direct its actions.
2. **Comprehensive:** Change must encompass the connections between accounting systems, currencies, regulatory systems, economic structures and all parts of the financial system.
3. **Inclusive:** Traditional insiders should be complemented by other groups including responsible investors, multi-stakeholder groups working on finance issues, asset owners, labor, NGOs and critical academics. And make participation truly global. .
4. **Systemic:** True systemic risk is not only financial. The change must connect financial stability to the real economy, social equity, and environmental sustainability. This reflects “triple-bottom-line” logic: paper economies support bubbles and do not generate real wealth; increased income differentials lead to social violence and destruction of assets and wealth-generation; continual erosion of natural capital will lead to economic collapse.

The meeting held at the Harvard Business School (HBS) was organized by the Global Finance Initiative (GFI) of iScale, and hosted by the HBS Social Enterprise Governance, Accountability and Performance Program. Khagram is also Ratan Tata Chair at the Tata Institute of Social Sciences in India, and iScale Lead Steward. The GFI began before the current crisis in January 2008, from concern for the direction of the global financial system.

“A World Commission is the scale of effort that this crisis warrants,” says Khagram who was Senior Policy Advisor for the World Commission on Dams (WCD). Like the WCD, the World Commission on Global Finance would be a multi-stakeholder process of two to three years that would hold consultations globally, conduct research, learn from successful global institutional change advocates, and start building a global financial system for the 21st century. “If dams warranted this type of serious, thoughtful and consultative approach, certainly we should do no less—indeed, much more—for the financial system,” says Khagram.

The call for the Commission is accompanied by release of a report by the GFI that ends Phase I of the project and details plans for Phase II that are designed to push for such a Commission. A list of the GFI Advisory Team is attached – these individuals are acting in their personal capacity.

The GFI is a project of Global Action Network Net (GAN-Net) and [iScale](#), supported with funding from the Ford Foundation. For the full report and more information see: <https://sites.google.com/a/gan-net.net/gfi-share-space> or contact:

Dr. Sanjeev Khagram: skhagram@scalingimpact.net; +1 (206) 697-0084

Dr. Steve Waddell: swaddell@scalingimpact.net; +1 (617) 388-7658

Global Finance Initiative Advisory Team

	Last Name	First Name	Relevant Networks	Organization (for identification purpose only)	Job Title
1.	Burke	Sara	FES' global network and civil society UN connections	FES – Friedrich-Ebert-Stiftung	Policy Analyst
2.	Chan	Michelle	Friends of the Earth Bank Track	Friends of the Earth – United States	Program Manager, Green Investments Project
3.	Flannery	Sean	State Street Bank		Chief Investment Officer of the Americas (frmr)
4.	Habbard	Pierre	Trade unions, Global Reporting Initiative	TUAC – Trade Union Advisory Committee to the OECD	Sr. Policy Advisor
5.	Henderson	Hazel	Henderson.com, Calvert- Henderson.com, Ethical Markets	Ethical Markets Media (USA & Brazil)	President
6.	Khagram	Sanjeev	Harvard Business School iScale	iScale	Lead Steward/CEO
7.	MacLetchie	Claire	Asian investors	ASRiA – Association for Sustainable and Responsible Investment in Asia	Executive Director
8.	Thamotheram	Raj	Responsible Investors, NSFM – Network for Sustainable Financial Markets	AXA Investment Managers	Director of Responsible Investment
9.	Underhill	Geoffrey	Academics on global financial issues	University of Amsterdam, School for Social Science Research	Professor
10	Uzan	Marc	Regulators Governments	Reinventing Bretton Woods Committee	Executive Director
11	White	Allen	Corporation 20/20 Global Reporting Initiative	Tellus Institute	Senior VP

Survey Results

Between October 1 and December 15, 2008, an on-line survey was conducted of people engaged in financial system issues. The introduction to the survey read as follows:

The financial system is at its greatest global turning point ever. Over a year ago, well before the magnitude was popularly suspected, the Global Finance Initiative (GFI) began as an inquiry into the "global financial system". This project focuses on (1) what process should be taken to change the system, (2) how issues and system networks are changing, and (3) what new roles are emerging. The goal of this survey is to identify key strategic opportunities that arise – for you, your network/organization and the system as a whole – to influence the development of the global financial system. If you are in the finance industry, or doing work related to it, we ask you to take 15-20 minutes to answer this survey.

The results follow.

1. How would you best describe your role with respect to finance? Check all that apply.

Answer Options	Count	
Analyst	3	3.2%
Public policy maker/regulator	6	6.4%
Politician	0	0.0%
Academic	43	45.7%
NGO	25	26.6%
Inter-Governmental Organization (non-funding/investing)	3	3.2%
Labor	2	2.1%
Banker	2	2.1%
Asset manager	2	2.1%
Equity Investor/Consultant working in the field of equity investment	7	7.4%
Insurance Industry Professional	0	0.0%
Bilateral/multilateral donor/investor	0	0.0%
Private donor	0	0.0%
Participant of finance networks with multi-stakeholder strategies	8	8.5%
Other (please specify)	15	16.0%
Total	94	100

2. How would you best describe the scope of your work? Check all that apply.

Answer Options	Count	
Local	6	6.8%
National	26	29.5%
Regional	20	22.7%
Global	74	84.1%
Total	88	100.0%

**3. How would you describe the geographic focus? (It may be a sub-region of one of the options.)
Check all that apply.**

Answer Options	Count	
North Africa & Middle East	4	4.6%
Sub-Saharan Africa	9	4.6%
North America	28	4.6%
Central & South America	6	4.6%
Europe	30	4.6%
Russia and Central Asia	2	4.6%
South Asia	6	4.6%
East Asia	12	4.6%
South East Asia	11	4.6%
Australasia	7	4.6%
Global	52	4.6%
Not geographically-specific	17	4.6%
Total	87	100.0%

**4. What part of the finance system do you work in or seek to influence through your work?
Please rate the following on a scale of 1 to 5, with 1 being “no focus” and 5 being “primary focus.” (If you work in finance you might only indicate which part you work in with a 5.)**

Answer Options	Ave.	1	2	3	4	5	Total
Other (please specify)							11.8%
Export Credit Agency	1.8	43.5%	9.4%	5.9%	5.9%	4.7%	69.4%
Individual investors	2.4	35.3%	9.4%	8.2%	8.2%	14.1%	75.3%
Insurance companies	2.4	29.4%	16.5%	7.1%	11.8%	8.2%	72.9%
Central Bank	2.8	23.5%	11.8%	7.1%	12.9%	18.8%	74.1%
Non-financial corporations	2.9	20.0%	12.9%	11.8%	16.5%	11.8%	72.9%
Multi-lateral/ development banks (like World Bank)	3.1	17.6%	16.5%	9.4%	11.8%	27.1%	82.4%
Commercial banks	3.2	11.8%	23.5%	5.9%	18.8%	18.8%	78.8%
Investment banks	3.2	9.4%	17.6%	17.6%	18.8%	16.5%	80.0%
Investment consultants, analysts	3.3	13.5%	13.5%	2.7%	24.3%	18.9%	73.0%
Major asset owners like pension/sovereign wealth funds	3.3	12.9%	16.5%	12.9%	9.4%	28.2%	80.0%
Finance industry professionals	3.3	8.2%	16.5%	11.8%	24.7%	15.3%	76.5%
Politicians	3.5	7.1%	15.3%	18.8%	24.7%	27.1%	92.9%
Policy-makers/regulators	4.0	3.5%	7.1%	14.1%	23.5%	44.7%	92.9%
Answered question							85

**5. How significant are the events of the last few months to the global finance system?
Please rate on a scale of 1 to 5, with 1 being “insignificant” and 5 being “changing fundamental assumptions.”**

Answer Options	1	2	3	4	5	Count
Significance	1	1	4	18	54	78

**6. Which issues do you think need attention in the global financial system?
Please rate the following on a scale of 1 to 5, with 1 being “of no importance” to 5 being “the most critical.”**

Answer Options	Ave.	1	2	3	4	5	Count
Other (please specify and rate 1-5)							3
Corporate Social Responsibility	3.1	6	6	14	10	7	43
Environmental impact	3.4	6	7	10	8	14	45
Incentive systems	3.8	2	5	10	12	16	45
Extending time horizons	4.0	3	2	9	10	20	44
Transparency of transactions	4.1	1	4	9	9	24	47
Stability	4.2	0	2	9	14	20	45
Social and development impact	4.2	2	0	8	10	25	45
Accountability within the (global) financial system amongst stakeholders	4.3	1	1	7	11	25	45
Governance of the financial institutions themselves	4.5	1	1	3	12	29	46
Public policy and regulation	4.5	1	0	4	11	30	46
Global framework...what should the global architecture be?	4.6	0	1	6	5	34	46
Answered question							47

7. I believe longer-term leadership should be taken by (check all that apply):

Answer Options	Count	
US	46	78.0%
Europe & Japan	50	84.7%
Middle East	12	20.3%
Other Asia	39	66.1%
Other countries	23	39.0%
Other (please specify)	33	55.9%
Answered question	59	100.0%

**8. How important do you think it is to engage the following stakeholder groups to develop a longer-term approach to the issues?
Please rate the following on a scale of 1 to 5, with 1 being “of no importance” to 5 being “the most critical.”**

	Ave.
Individual investors	2.69
Non-financial corporations	2.86
NGOs working on issues of enviro-social impact of investing	3.18
Academics	3.25
Insurance companies	3.25
Finance industry professionals	3.32

Investment banks	3.39
Multi-lateral/ development banks (like World Bank)	3.44
Networks with a multi-stakeholder financial strategy - Examples include: Equator Principles, Global Compact Financial Project, UNPRI, Enhanced Analytics Initiative, UNEP Financial Initiative...	3.48
Inter-governmental organizations	3.54
Commercial banks	3.56
Major asset owners like pension/sovereign wealth funds	3.79
Politicians	3.89
Policy-makers/regulators	4.27
Other stakeholder groups? (please specify and rate)	0.00
Answered question	79

9. I believe the longer-term approach should be led by (check all that apply):

Answer Options	Count	
The finance industry broadly (banking, insurance, equity)	23	30.7%
Other stakeholder (please specify from the list in Question 9 or others)	29	38.7%
Other stakeholders (please specify in the box below)	32	42.7%
Government	61	81.3%
Answered question	75	100.0%

Groups mentioned for leadership:

Asset owners
Asset owners (pension funds) need to lead -- the industry has short-term incentives and government regulation will be circumvented
Citizens (2)
Civil Society
CONSUMERS
Government joined by workers, private sector, academia, civil society organizations working on development impacts of finance
governments have the fundamental responsibility to protect the common good; no special status should be given to the financial sector itself--an inherent conflict of interest
inclusive, multi-stakeholder
International Financial Institutions
international institutions
international organizations, civil society, academics/think tanks, "real economy" actors
monetary reformers , complementary currency issuers, alternative, electronic trading systems
More leadership from organisations with a longer term view than govts and less conflict of interest than the finance sector
Multi-lateral/ development banks (like World Bank), Networks with a multi-stakeholder financial strategy
Multi-stakeholder approach involving both govt officials, civil society, and institutional investors
New International Organization
NGO
NGOs, academics, UN, World Bank, IMF
not service providing or financing sector organisations like pension fund umbrella organisations representing the long term interests of 95% of the worlds middle class
Other stakeholder (please specify from the list in Question 9 or others)

Other stakeholder (please specify from the list in Question 9 or others)
Pension funds and small investors/savers
regulators
Social Movements
society in general
True owners of capital
UNCTAD should lead, but won't. i.e. The UN should be leading these issues, not individual countries of IMF/WB
United Nations

**10. Which of the following components do you think are necessary for creating a successful forum for guiding the longer-term approach?
Check all that apply**

Answer Options	Count	
Other (please specify)	10	12.8%
substantial financial resources for broad participation	34	43.6%
one to two year time frame	41	52.6%
set of prominent people to "champion" the project	41	52.6%
substantial research resources	46	59.0%
consultations with a set of global stakeholders	61	78.2%
Answered question	78	100.0%

11. Please name anyone who you think would be a good member of a leadership group to design a future global financial system.

	1
Avinash Persaud	
Barry Eichengreen	
Bernard Leiter	
Burnett	
Donald Macdonald (2)	
Dr Darren Lee	
Dr. Jesus P. Estanislao, Chair, Inst. of Corporate Directors	
Eric Helliener	
George Soros	
Herman Wijffels (Dutch representative WB and former banker)	
Howard Davies	
I am not sure anyone can do this	
james robertson, james@jamesroberston.com	
Jan Kregel	
Jeffrey Sachs	
Jo Marie Griesgraber	
John Goldstein, Imprint Capital	
john renesch (www.renesch.com)	
john williamson	
Jose Antonio Ocampo	
Joseph Stiglitz (8)	

Kenneth Rogoff
Manmohan Singh
Oscar Ugarteche
Rinske van Noortwijk < www.greenwish.nl >
Robert Monks
Robert Rubinstein, TBLI GROUP
Shafiqul Choudhury (President, ASA, No.1 MFI)
Soros
Stan Fisher
Tobin
Vince Cable, Dep leader, UK Liberal Democrat Party
Warren Buffet

Appendix G

The Report, the Global Finance Initiative and Its Organizers

The GFI is a project of Global Action Network Net (GAN-Net)/iScale. GAN-Net brings together global multi-stakeholder networks. iScale is a network of organizations and people that develops, promotes, applies, and shares innovations for scaling impact (www.scalingimpact.net). iScale supports the development of Global Action Networks (GANs) as one scaling strategy.

iScale's strategy consists of implementing high-impact action-learning projects, facilitating communities of practice, and building fields (issue and competency), through which we develop, promote, apply and share innovations for scaling impact.

This project is led by:

Dr. Sanjeev Khagram – Sanjeev is Lead Steward of GAN-Net/iScale, Wyss Scholar in Social Entrepreneurship at the Harvard Business School, Ratan Tata Chair at the Tata Institute of Social Sciences in India, and World Economic Forum Youth Global leader. Khagram is on leave from the University of Washington and previously held faculty positions there. He also previously held faculty positions at Stanford University and Harvard University's JFK School of Government. From 2003-2005 he was Acting Dean of the Desmond Tutu Peace Centre and between 1998-2000, he was Senior Policy Director at the World Commission on Dams.

Khagram has published widely including *Restructuring World Politics, and Dams and Development: Transnational Struggles for Water and Power*. Recent publications include *Future Architectures of Global Governance: A Transnational Perspective/Prospective* that was recently published in *Global Governance*, and *Transnational Transformations: Toward Multi-Stakeholder, Multi-Level Global Governance*.

Dr. Steve Waddell – Steve is Founder and Executive Director of Global Action Network Net and Chief Learning Steward of iScale. GAN-Net grew out of Steve's work as a researcher, educator and consultant focusing upon inter-sectoral partnerships, large systems change and global networks. GAN-Net has addressed issues in trade, poverty, road-building, youth employment, banking and provision of water. Usually the change strategy involves creating business-government-civil society collaborations locally, nationally and globally.

Dozens of publications by Steve have been published in English and Spanish, including the book [*Societal Learning and Change: Innovation with Multi-Stakeholder Strategies*](#) (2005). Steve has a Ph.D. in sociology and a Masters in Business Administration from Boston College.

The GFI team also included:

Verna Allee – Senior Network Analyst. Verna is an internationally recognized thought leader and author in value networks, knowledge management, intangibles and new business models. She has pioneered the development of the ValueNet Works™ Analysis methodology while consulting to many large global companies as well as entrepreneurial start-ups, government organizations, NGO's, and cross organizational networks. In July 2001, she was featured in the cover article of *KM Magazine* as one of the top six movers and shakers in the knowledge management field.

Verna has an MA and holds degrees from U.C. Berkeley and JFK University. She guest lectures at universities around the world, including Greenwich University (London), USC, and others in Helsinki, the Netherlands, New Zealand and Singapore. She has published numerous journal

articles and is author of *The Knowledge Evolution: Expanding Organizational Intelligence* (1997) and *The Future of Knowledge: Increasing Prosperity through Value Networks* (2002).

Jem Bendell – Senior Associate. For over 12 years Jem has been involved in, advised on and written about global social change, focusing on the relationship of corporations to sustainable development. He has been involved in the creation of innovative institutions such as the Marine Stewardship Council in 1996, co-wrote the first book on cross-sectoral partnerships for sustainable development in 1997, has written over 40 other publications including a column in the *Journal of Corporate Citizenship*, and 4 UN reports on related topics. As director of Lifeworth, He has been working with over 30 organisations in 14 countries, seeking to promote the systemic transformation of markets.

Jem is an Adjunct Associate Professor with Griffith University Business School (Australia), and Visiting Fellow with the UN Research Institute for Social Development.

Randy Kemp – Researcher. Randy joined iScale in 2008 and is concurrently pursuing his PhD in Information Science from the University of Washington. He was most recently a research assistant working on projects related to international development and humanitarian action. He has published articles on information management in disaster risk reduction, public participatory Geographic Information Systems, privacy of information, intellectual property, and faceted classification. He worked as a librarian at UC Santa Barbara and Denver Seminary. He graduated with an MA in Information and Library Studies from the University of Michigan and an MA in Christian Studies from Denver Seminary. During summers in college he, on a few occasions, fought forest fires. He now puts out fires of a different kind with his wife and their two children in Seattle.

At iScale Randy is currently working on the action learning projects around global finance and mass atrocities. In this role, he helps with data collection and analysis. He also works with the Senior Steward for IT in the areas of information organization, technology adaptation, and related information communication matters. He joined iScale because of the solid relationships with current and future iScale team members which formed during joint project work. He appreciates the shared vision, challenging questions, and global ethos of the team and their work.

Catrina Lucero – Researcher. Catrina Lucero is a Steward/project manager for iScale where she provides research support and helps coordinate activities related to iScale's work on Impact Planning Assessment and Learning (IPAL) systems. This includes managing iScale's IPAL portfolio, organizing the Impacts Community of Practice (ICoP) and engaging in IPAL action learning and advising projects. Before coming to iScale, Catrina was a research assistant at the Marc Lindenberg Center for Humanitarian Action, International Development and Global Citizenship. She has also worked as an aide to a municipal government lobbyist in the Washington State Capital, and as an immigration caseworker for a United States Federal Senator. She has a Bachelor of Arts degree in Political Science, a Masters of Public Administration and a certificate in International Development Policy and Management, all from the University of Washington.

<http://www.scalingimpact.net>