

**Dialogue** on  
**Globalization**

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**Governance Reform of the  
Bretton Woods Institutions and  
the UN Development System**

## **Dialogue on Globalization**

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## Preface

Sixty years after the creation of the United Nations and the Bretton Woods institutions, the world faces some serious old and new global challenges: hunger, poverty, and social polarization are a heavy burden for the idea of justice. Global population growth continues to exacerbate these problems, forcing the international community to focus on sustainability as an organizing principle, not only for environmental policies and strategies but also for economic policy, energy, and the manufacturing industry. Global climate change and the loss of biodiversity has become a serious environmental and security issue. While these and other threats (HIV/AIDS, malaria, tuberculosis, catastrophic diseases, as well as environmental health risks) continue to grow as global issues, the necessary global governance capacities and institutions are still weak and not up to the task of addressing these threats. We believe that the Millennium Development Goals and the Agenda for Sustainable Development cannot be met without serious efforts to reform the architecture of global governance.

The international development and environmental architecture is fragmented, which is a burden for developing countries and donor countries alike. Aid programs often overwhelm political, economic, and bureaucratic capacities of developing countries with their requirements that changes be implemented under conditionalities which are hard to fulfill, particularly if developing countries have to deal with national and international donor organizations at the same time. Donor countries often see their aid efforts diminished because too many players and institutions tend to reduce both the efficiency and the effectiveness of development programs.

The reform proposals made in this study are aimed at strengthening and improving the main multilateral development institutions. In particular, the Bretton Woods institutions and the UN development system need to improve their cooperation by synchronizing their development strategies. Both the UN and the Bretton Woods institutions have important, different, and at the same time common roles to play. In fact, their commonality is clearly visible in the origins of the post-World War II architecture, in which the Bretton Woods institutions, though first by birth right, formed part of a one-world strategy, which was the intention of the founding fathers of the post-World War II international order. This spirit is still the best idea to address serious global issues in the absence of a world government.

The Washington Office of the Friedrich Ebert Foundation decided to contribute to the governance reform discussion over the multilateral development system, focusing in particular on the issue of cooperation, coherence, and commonality of policies and strategies of the multilateral development institutions. Our study "Governance Reform of the Bretton Woods Institutions and the UN Development System," commissioned in 2003, summarizes not only the contributions of its four authors but also the results of a series of expert meetings held over the past two years. We asked four experts on governance of the UN and the Bretton Woods institutions to contribute to the study: Dirk Messner, Director of the German Development Institute in Bonn; Simon Maxwell, Director of the Overseas Development Institute in London; Franz Nuscheler, Professor at the University of Duisburg in Germany and Director of the Institute for Development and Peace; and Joseph Siegle, Associate Director of the Center for Institutional Reform and the Informal Sector at the University of Maryland.

Merging and combining development and UN expertise from Germany, Great Britain, and the United States, creating one single document from three different important donor country perspectives, has been a new experience in development research. We believe it is a valid approach, at least from a donor perspective.

Our contribution to the reform discussion is based on scholarly research as well as institutional expertise. I would like to thank, in particular, the German Executive Director of the World Bank, Eckhard Deutscher, with whom we worked in close cooperation from the beginning to the end of the study.

I would also like to thank Devesh Kapur (Harvard University), Nancy Birdsall (Center for Global Development), and Johannes Linn (The Brookings Institution) for their initial input to the study project. Knut Panknin's (Washington Office of the Friedrich Ebert Foundation) assistance in coordinating meetings and managing the lengthy process of putting the publication together is much appreciated.

This study is a useful complementary effort to the work of the High Level Panel on Threats, Challenges and Change, the Report of the UN Millennium Project "Investing in Development" (Jeffrey Sachs Commission), and the Report of the UN Secretary-General "In Larger Freedom: Towards Development, Security and Human Rights for All." On a general level, it supports the proposals of these UN reform commissions and adds – we hope – a useful dimension of governance reform for the Bretton Woods Institutions. Taken together, these contributions will help to shape the debate on a global governance architecture better equipped to meet the global challenges of the future.

The UN reform debate and the rich material generated by the High Level Panel, the Jeffrey Sachs Commission, and the Report of the UN Secretary-General sets a good example for the new leadership of the World Bank and the IMF to embark on a process of reflection and reform conceptualization. Improving governance structures as well as the legitimacy of the Bretton Woods institutions will aid them in the crucial work they are doing to fight poverty and prevent conflict and social tensions in the future. This study is an attempt to contribute to – what we believe is – a necessary debate.

*Dieter Dettke*

Executive Director,

Washington Office of the Friedrich-Ebert-Stiftung

# 1 Executive Summary

The key messages of the present report can be summarized in six propositions:

- First, we face unprecedented problems at a global level – questions of war and peace, of climate change, of environmental sustainability, and of poverty.
- Second, these problems cannot be solved by nation states, however powerful, acting alone – we can only ameliorate our present and safeguard our future if people and their governments work together.
- Third, that means we need strong international cooperation and a strong multilateral system.
- Fourth, we do not have a strong system: it does not work well and it lacks legitimacy.
- Fifth, there are reform proposals on the table, most recently those made by Kofi Annan for the MDG Summit in September 2005.
- Sixth, those do not go far enough: We can and should do more.

The report makes the case for each of these propositions, and in particular lays out a program of action for 2005 and beyond. This year, however, is crucial. Attention is focused on international development as never before. The preparatory work has mostly been done. The decision-making structures are in place. It is imperative that the opportunity will not be missed. Above all, when governments meet in New York in September, for the MDG Summit, they must take the opportunity to make major changes to the multilateral development system.

## New Global Problems

Eight major challenges confront the international community today. They exceed the capacity to cope of individual countries. They are: poverty and social polarization; global population growth; failing states; new wars and privatized violence; insufficient drinking water supplies; climate change and shrinking biodiversity; volatile international financial markets; and economic marginalization of groups of countries and regions.

## Ineffective Structures of Global Governance

The legitimacy of the international development community is undermined by the unequal distribution of power between the G-7 and the largely disenfranchised developing countries. In addition, the system is characterized by its fragmented structure, by the dominance of institutional and national interests, and by overlapping responsibilities.

## Ten Principles to Build an Effective Global Governance Architecture

There are ten principles that should drive reform:

1. A centralized, effective and representative entity is needed within the UN on the development side, corresponding to the Security Council.
2. This calls for a single UN agency that would require adequate financial, human, and conceptual resources comparable to those of the World Bank.
3. Mergers or closures of multilateral agencies should be considered.
4. What is needed is a clear-cut division of labor within the international development system.
5. Coherence for development cooperation should be organized first and foremost at the country level.
6. Competition within the international system should be fostered in order to induce innovation.
7. As stakeholders, governments of the developed nations must take responsibility for leadership in the international system.
8. Developing countries should be given a stronger voice.
9. The EU should play a larger role.
10. More participation of civil society actors is needed.

## The UN Development System

Our main recommendations for a new global governance architecture are:

1. Creation of a Council for Global Development and Environment with an enhanced mandate and sufficient legitimacy to counterbalance the Bretton Woods Institutions, corresponding to the Security Council, but with additional powers. The Council for Global Development and Environment (CGDE) should become the principal funding vehicle for the UN development system – and should not be created unless a deal has been struck on funding.
2. Pending the creation of the CGDE, donors should channel funds to the Secretary-General, in order to create a system-wide UN budgeting system.
3. Elevating the G-20 group of Finance Ministers to the level of heads of state and government. If representatives of the World Bank, the IMF, and the WTO were to participate in G-20 meetings, an L-20 (Leaders) Forum would emerge. This could form a Global Council with high-level authority since the UN-Secretary-General and the ECOSOC President would also participate. The G-7 (8) would form the core of the G-20 or L-20.

## The Bretton Woods Institutions

Our main recommendations for governance reform of the Bretton Woods institutions are:

1. Voting structures, particularly the weight of developing countries, should be strengthened at the IMF and the World Bank. While each of the major shareholders in the IMF has its own chair, there are only two Executive Directors available to represent, respectively, the interests of English- and French-speaking African countries. How difficult would it be to provide this diverse and important constituency with a few more seats on the Board?

2. A recalibration of the quota system distributing relative shares of influence among member countries (and translated into regional constituencies on the Executive Board) every 10 years. This would be based on 3-5-year average shares of global GDP to avoid overrepresentation of fluke performers. Adding such flexibility would provide a mechanism to adapt to the ongoing changes in the global economy. Countries such as Brazil, South Korea, and Chile would gain a greater voice in the Fund, commensurate with their sustained growth.
3. The creation of advisory boards for country directors is recommended. If that could be achieved, the country directors would neither be the exclusive instruments of a shareholder nor an instrument of the Executive Board.
4. Performance can also be enhanced by means of certain management reforms. Prime among these is the need to remove loan volume criteria from staff or agency appraisals. This tends to discount the value placed on development effectiveness.
5. Democracies consistently achieve development outcomes superior to those of non-representative governance structures. Therefore, the political prohibition clause of the IFIs should be adapted to allow a more open discussion of political substance and democratic governance in the design and implementation of their support programs. The European Bank for Reconstruction and Development (EBRD) already comes close to this ideal. The IFIs should not relinquish their commitment to fiscal and monetary prudence. Sustained economic reform is a matter of negotiating among complex competing interests so that the broader social good is advanced. Democratically selected leaders and an informed and enfranchised public in collaboration with the IFIs are the logical focal points for balancing a country's short-term welfare versus efficiency trade-offs.
6. An autonomous evaluation unit should be established within the World Bank and regional development banks – akin to the IMF's Independent Evaluation Office.
7. The Fund should create more space for staff somewhat removed from a country context to voice its concerns. This could take various forms, including a mechanism for anonymous input to be communicated to senior leadership, allowing for dissenting opinions in country reports, or appointing an independent analyst as a devil's advocate to actively highlight a country's potential susceptibility to financial instability.
8. The notes of all Executive Board meetings should be made public. By allowing for a gradation of opinion to be expressed on any given circumstance, this procedure would increase the individual accountability of all Executive Directors in playing an active oversight role.
9. Equally important are the new guidelines within the overall framework of support for national strategies for poverty reduction (Poverty Reduction Strategy Papers, PRSPs), which have replaced the classic and mainly donor-controlled structural adjustment measures of the 1980s and 1990s.
10. The IMF, in particular, has a critical role to play in promoting debt relief. The Fund should have the mandate and dexterity to adopt more timely lending instruments without regard to the past practices of a predecessor regime. IFI and bilateral lending is often contingent on an ongoing IMF arrangement. Timely negotiations on appropriate IMF financing with a new democratic government could catalyze additional sources of financial support during the critical transition period. The World Bank and the IMF should also enter into larger-term financing agreements (e.g. 10 years) with developing country

democracies. This would facilitate the integration of larger planning horizons into economic policy-making while facilitating necessary short-run compromises.

11. Commensurate with its monetary mandate, the IMF should be encouraged to collaborate more intensively with the World Bank and the United Nations in pursuing the Millennium Development Goals. Along with the Bank, the Fund should also be encouraged to continue efforts to engage civil society on major issues involving growth, stability, and welfare. Regional development banks should focus on three areas: first, their specific regional development programs; second, the construction of cross-border regional infrastructure; third, the development of adequate conceptual expertise to be better able to represent the developing regions and their governments within the Bretton Woods institutions or the WTO.

## Cooperation between the Bretton Woods Institutions and the United Nations

Coordination alone cannot solve the governance problems of the UN development system and the Bretton Woods institutions if the coordinating institution does not have the power and resources it needs to do the job effectively. Cooperation should be a matter of self-interest and needs to be reinforced by a corresponding culture. This is more likely to occur when all actors, including the richest and most powerful, gain and when – at the same time – defection entails significant costs. In other words: Cooperation requires a mix of culture and calculus. It has to be long-lasting, broad and deep, and part of a shared vision.

## Achieving Change

Finally, achieving change is not simply a matter of political will in the abstract. Improving the effectiveness of the multilateral system is an exercise in collective action. It will require building trust, establishing new ways of working together, modifying incentives to collaborate, and increasing the cost of defection from the world community.



# 2. Introduction

Beginning with the North-South Commission chaired by Willy Brandt, several international commissions of experts have concluded that the major challenges confronting the world community today must be addressed through enhanced multilateral cooperation.

Yet, at the same time, it is necessary to acknowledge that the institutions in charge of dealing with the new global issues are faced with serious problems of legitimacy. Democratic policy-making under the conditions of globalization, an emerging global society, and the growing reality of global politics is increasingly difficult and complex. In other words: the international community is faced with a crisis of global governance.

Too many and conflicting international organizations, institutional arrangements and programs, overlapping mandates, and limited efficiency and effectiveness drive up expenditures for development and environmental protection and pose a risk of reducing public acceptance as well as the willingness of governments to strengthen multilateralism. In the words of Kofi Annan, Secretary-General of the United Nations:

*“The question imposes itself whether it is sufficient to exhort states and individuals to develop more enlightened attitudes and increase their efforts, or whether a radical reform of our international institutions is required. It is my personal opinion that member states should at least cast a critical eye on the existing “architecture” of the international institutions and ask whether they are truly prepared to face the tasks at hand [...] I believe that today we must transcend useful but mainly administrative modifications and pose more fundamental questions – not only concerning procedures for implementing decisions but also questioning the adequacy of those entities tasked with making those decisions.”* (Speech: 9/2/03)

The report submitted in December 2004 by the Secretary-General’s High Level Panel on Threats, Challenges and Change postulated not only a need for reform of the UN Security Council – contrary to the impression created by the international response – but also a need to reorganize and strengthen both ECOSOC and the UN Commission on Human Rights. In its report of January 2005, the Millennium Project, also instituted by the Secretary-General for the purpose of developing a plan for achieving the Millennium Development Goals, outlined some important proposals for the improvement of coordination within the multilateral development system. The Secretary-General’s report “In Larger Freedom: Towards Development, Security and Human Rights for All,” published in March 2005, is in favor of even more radical reforms in order to overcome the structural constraints we face:

**It is important to acknowledge that the institutions in charge of dealing with the new global issues are faced with serious problems of legitimacy.**

*“In the medium and longer term, we will need to consider much more radical reforms to address these [structural constraints]. Such reforms could include grouping the various agencies, funds and programmes into tightly managed entities, dealing respectively with development, the environment and humanitarian action. And this regrouping might involve eliminating or merging those funds, programmes and agencies which have complementary or overlapping mandates and expertise.” (Paragraph 197)*

**The present paper advocates the creation of a Global Council for Development and Environment.**

The present study builds on the proposals of both of the Secretary-General’s reform commissions and supports the recommendations of the report “In Larger Freedom: Towards Development, Security and Human Rights for All.” At the same time, the study transcends the framework for reforms discussed within the United Nations in several important respects and develops ideas for a broader concept of global governance reform. We advocate the creation of a *Global Council for Development and Environment* because we consider the global problems of economic development and the environment to be equally critical for global stability in the 21<sup>st</sup> century as the classic issues of security and transnational terrorism. This philosophy is a prerequisite for readying the multilateral system of economic development and environmental policies for global threats within the current system as it enters the 21<sup>st</sup> century.

There is a broad consensus among scholars in the field of international relations and within international organizations that a comprehensive reform of the system of international institutions is required. The sluggish “UN tanker” must improve its global maneuverability and become the institutional engine of a global ecological and development partnership operating on the basis of UN Charter principles. This does not imply weakening the influential international financial institutions, particularly the Bretton Woods institutions (BWIs) or the WTO, it means promoting their further integration into a coherent global governance architecture under the political leadership of the United Nations. The present crisis of global governance is first and foremost an issue of political legitimacy, and while the BWIs and the regional multilateral development banks have demonstrated a high degree of competence, their legitimacy is being questioned by a broad variety of NGOs and grassroots organizations. On the other hand, as a legitimate institution faced with global crisis and instability, the UN has often shown a lack of efficiency and too little capacity to act. The UN system needs to be reformed, too.

Whether the UN will be able to implement the reforms needed to increase its capacity to act depends on the willingness of its 191 member states, especially the present 5 permanent members of the Security Council, to support such an undertaking.

**Stakeholders need to act now, while sentiment within the international community in support of systemic reform is strong.**

Stakeholders need to act now, while sentiment within the international community in support of systemic reform is strong. Delay will only complicate, if not entirely derail, the necessary momentum toward reform. We propose the following actions:

- What is needed to improve the coherence of UN policies for economic development and environment is improved harmonization of the activities and scope of the UN specialized agencies, programs and funds, and the international financial institutions. A better division of labor, more clearly defined develop-

ment agency mandates, and a higher level of coordination and coherence must go hand in hand with encouragement of competition for best practices and better results of multilateral action.

- Activities on the part of the UN system for development, the Bretton Woods institutions, and the regional development banks require greater coherence and mutual adaptation. The “Council for Global Development and Environment” (CGDE) that we propose should assume this critical function. To the degree the CGDE is able to generate badly needed consensus within and across various constituencies – and foster a common sense of ownership – it offers the best chance for bringing the international community together in support of long-awaited systemic reform.
- An increasing emphasis on global decision-making and the decreasing importance of nation states justifies a more equitable and effective “voice and vote” for the developing countries in governance in the United Nations system. This need is especially pronounced in the World Bank and the International Monetary Fund, where the role and influence of the G-7 is pronounced. Legitimacy, the fundamental prerequisite for effective and consensual international policy action, requires a more balanced democratic representation within the international financial institutions (IFIs). The allocation of voice within the IFIs must reflect today’s changed global economic power structures and set the stage for a better representation of developing countries in the Executive Board.

**Activities on the part of the UN system for development, the Bretton Woods institutions, and the regional development banks require greater coherence and mutual adaptation.**

# 3. New Global Problems and Governance Reform Strategies

World problems are phenomena with potentially worldwide consequences that threaten the global system. Such problems may impact very differently on nation states and exceed the coping capacity of individual countries. World problems therefore can only be resolved through the mechanisms of international cooperation and together with multilateral organizations.

Eight major challenges confront the international community today

- *Poverty and social polarization:* 20% of the world population (approximately 1.2 billion individuals) lives in absolute poverty; roughly 45% (appr. 2.8 billion) must survive on less than \$2 per day. The tendency toward social polarization of world society may aggravate the situation even further. According to the World Bank, in 1988 the global Gini Index, which is used to measure income inequality (with 0=perfect equality, and 1=perfect inequality), was 62.5<sup>1</sup>, and thus fell far below any national Gini Index or the available Gini results for the world regions. The 1995 figure for OECD countries was 34, for Sub-Saharan Africa 45, and for Latin America 48. Between 1988 and 1993, the global Gini Index rose from 62.5 to 66, indicating that the global distribution of income had declined nearly 6% within only five years. The absolute number of individuals living in poverty raises normative and practical questions. On the normative side: How much inequality can the world truly live with, especially in light of the sharp differences separating the largely poor developing countries and their rich industrialized neighbors? The practical question is whether such polarization is a contributory factor to the growing spasm of international violence and political instability threatening large parts of the world today.
- *Global population growth:* According to data provided by the United Nations, the world population will grow to somewhere between 9 and 13 billion by 2040 (1900: 1.6 billion; 1950: 2.5 billion; 2004: 6.1 billion). Population growth mainly occurs in the poorer regions of the world and influences the course of discussions on a wide range of issues, running the gamut from prospects for enhanced food supply, environmental protection, to the role played by large and growing populations in fostering conflict and instability in volatile areas of the world.
- *Failing states:* Since September 11, 2001, it can no longer be overlooked that failing and failed states with a collapsing system of government not only endanger their own populations but also threaten the security of neighboring as well as distant countries. Failed states are potential havens for international trafficking in humans, drugs, and weapons as well as transnational terrorism. Often, they are at the root of destabilizing cross-border, and broader regional conflicts.

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<sup>1</sup> Numbers represent the Gini Index (0-100) which is the Gini coefficient (0-1) in percentage form.

- *New wars and privatized violence:* Conflicts and wars between states persist; here we need think only of the continuing conflict between India and Pakistan or the war between Eritrea and Ethiopia, which claimed more than 70,000 lives from 1998 to 2002. Worth noting in this regard: of 29 active armed conflicts in 2003, only the U.S./U.K. war with Iraq qualified as one conducted by governments. Privatized violence perpetrated by warlords, terrorist networks, international drug cartels, and weapons dealers constitute novel challenges to international security policy.
- *Insufficient drinking water supplies:* By 2030, according to the United Nations, 30-40% of the world population will lack access to clean drinking water (currently 10%). This trend has many causes: unreliable or non-existent water-supply systems in rapidly growing cities; contamination and silting of brooks, rivers, and lakes; continued lowering of groundwater levels due to water overuse and waste, leakage from corroded delivery systems, and excessive agricultural irrigation. Increasingly insufficient water supplies could very well engender water conflicts – domestically as well as across borders. Scarcity of drinking water also increases health risks and exacerbates poverty.
- *Climate change and shrinking biodiversity:* Beginning in the mid-18th century, atmospheric CO<sub>2</sub> levels have risen continuously. Meteorologists, for a number of years now, have surmised a causal connection with the rise in extreme meteorological phenomena such as heat waves, droughts, hurricanes and tornados. Such occurrences and their attendant consequences – catastrophic forest fires in the tropics, southern Europe, the United States, and Australia – are an indication of the considerable costs associated with the rising average temperatures accompanying the rise in CO<sub>2</sub> concentrations. The consequences of these trends are dire. Forests, coral reefs, and other ecosystems, which are home to many species, have become increasingly unstable; some in fact are dying out, with a resultant loss in agricultural productivity in the south; human beings must be resettled due to rising sea levels, recurrent floods, and landslides; and diseases such as malaria and dengue fever are on the rise because their carrier habitats are improving. Global ecosystem instability suggests that a new dialogue between developing and industrialized countries on the efficacy of the traditional model of ever-increasing volumes of consumption and production – which until now has held sway in the West – is long overdue.
- *Volatile international financial markets:* The 1990s were marked by seven major international financial crises. Clearly, reliable systems of control for the highly dynamic, innovative but also unstable and volatile world financial markets are still lacking. Financial experts have estimated that the cost of such crises has been substantial, absorbing close to 20% of the GDP of Mexico; more than 50% of the GDP of Indonesia; other such figures being: South Korea: 35%; Russia: 40%; and Argentina: 60%. Furthermore, the high degree of volatility of international capital flows generates major exogenous shocks for the (mostly advanced) developing nations integrated into the world financial markets. From 1993 to 1997, the credit flows from private banks to Latin America rose from approximately US\$ 200 million to almost \$30 billion. In 1999, the continent had to cope with capital outflows of \$16 billion.

Stock markets were subject to similar developments: in 1993, foreign investment in Latin American stock markets was \$27 billion but dropped to \$1.8 billion in 1998. Stable world financial markets would be an important component of “equitable globalization” (in addition to a much debated development-oriented world trade regime).

- *Economic marginalization of groups of countries and regions:* During the past several decades, a considerable number of developing countries have been able to benefit from a globalizing world economy, notably South Korea, Taiwan, China, Chile, and India. In many other instances, however, this trend has unduly complicated efforts of low-income countries to take full advantage of their low wage costs and abundant natural resources to gain access to lucrative international markets. Their growing marginalization has, if anything, been exacerbated by a host of other aligned ills, including heightened financial market volatility, industrialized-country protectionism, and the spread of political instability throughout the developing world. As a result: at the beginning of the new millennium, Africa contributed a mere 2.3% of world trade, received 1.7% of global direct foreign investment, and devoted 0.7% of all expenditures to research and development (these numbers include South Africa!). Among the least developed countries, there is further differentiation: the five oil-exporting LDCs (Angola, Equatorial Guinea, Sudan, Yemen, and Chad) receive 62.7% of all FDI in LDCs (\$5.2 billion in 2002; worldwide FDI: \$650 billion). Ten LDCs receive 87.3% of all FDI in such countries, while the remaining 39 LDCs share \$665 million among them. The concept of “decoupling from the world economy” popular during the 1970s (then conceived as a precondition for independent development) has become harsh reality for several world regions.

### 3.1 Ineffective Structures of Global Governance

A critical reexamination of international development policy is justified not only in response to the above challenges but also in light of existing institutional weaknesses and rigidities which unduly complicate the tasks of global renewal.

#### *a) The Institutional Landscape of International Development Policy: Major Governance Failures*

The following *structural problems* are inherent in the global governance architecture of development policy:

**Many organizations undeniably perform well but, taken together, the considerable number of development organizations do not form a harmonious whole, they are merely the sum of individual activities.**

- Since the 1960s, the number of development policy actors has risen continuously. The international institutional landscape is composed of bilateral development agencies, the Bretton Woods institutions (the World Bank and the IMF), regional development banks, the European Union, and a number of UN agencies, programs and funds. Many organizations undeniably perform well but, taken together, *the considerable number of development organizations do not form a harmonious whole*, they are merely the sum of individual activities. Many individual projects and programs of international development policy are important, often well-managed and make relevant contributions to development. But the overall number of tens of thousands of such development cooperation projects worldwide seems to indicate a lack of

focus and coherence. *Problems besetting the architecture of global governance become more apparent when we look at the overall system than when we focus on individual organizations.* First, the complexity of the global governance structure imposes high, expensive transaction costs on countries least able to bear them. Second, it taxes the capabilities of many developing nations confronted with different donor organizations, diverging systems of evaluation and implementation procedures, and, possibly, contradictory donor development strategies and goals. Third, it impedes the development of effective approaches to complex world problems such as the need to stabilize the 20 to 30 fragile states considered potential threats to international security since September 11, 2001. Fourth and finally, public support for Third World development will decline if there is little change in spite of substantial financial commitments of industrial countries.

- *Goals and jurisdictions as well as the strengths of individual organizations forming the global governance structure for development policy are difficult to identify.* There is much overlap due to the similarities and broad range of services offered by many organizations. The international development architecture is not so much a real marketplace in which only the most effective and efficient organizations survive, it is an overlapping, and thus inefficient, network that encourages various donor organizations to channel resources to the same list of preferred clients. Scarce resources are thus distributed among too many “sites” while yielding only meager results, and human resources and conceptual capabilities are scattered without any streamlining. Even within the EU, a systematic division of labor between the EU Commission’s development policy and that of the member states is rarely achieved.
- *The global governance architecture of development policy is highly fragmented.* Beyond the issue of more effective harmonization of bi- and multi-lateral development policy, three (additional) fault lines can be observed at the international level. Considering the problems of global interdependence, the following fragmentation gives cause for concern; first, the divide between the UN development organizations and the Bretton Woods actors; second, the missing links between the international development organizations and the World Trade Organization; third, the division between international development policy and world environmental policy organizations on one hand and the global security policy actors on the other, and fourth, there are 25 regional development banks that operate independently of each other.
- *Institutional self-interest and national interests* characterize international development policy. But there is a lack of controlling and coordinating mechanisms which could channel opposing interests, develop shared interests, and translate those into joint problem-solving approaches. In spite of its weaknesses, the UN Security Council is potentially one mechanism that could marshal sufficient consensus within the international community in support of enhanced consultation, coordination, and collective action.
- *The legitimacy of the international development community is undermined by the unequal distribution of power between the G-7 and the largely disenfranchised developing countries.* This burden is typical of the operations of the United Nations and the Bretton Woods institutions (IMF and World Bank).

**There is much overlap due to the similarities and broad range of services offered by many organizations.**

**The global governance architecture of development policy is highly fragmented.**

**World Bank management and staff have accordingly been accused of riding rough shod over the sensitivities of individual donor countries, and the Bank has been open to charges that it behaves like a natural monopoly.**

**The European Union is among the international development policy actors with the greatest financial means, but it has so far not been able to translate its strength into international leadership.**

### *b) Overlapping Responsibilities of Development Policy Actors*

The *World Bank* is the world's premier development institution. Its strengths prominently include a highly trained and dedicated professional staff, an enviable capacity to identify key development problems and address them, and, of course, substantial – though hardly inexhaustible – financial resources that can be brought to bear in support of financial adjustment programs. But the World Bank's strengths, so its critics contend, are also its weaknesses. Bank management and staff have accordingly been accused of riding rough shod over the sensitivities of individual donor countries; a number of recent lending decisions have brought condemnation from the environmental community for the alleged damage they have caused to fragile ecosystems. While there are other development actors, notably the regional banks, the World Bank's preeminent role as a "development" institution has left it open to charges that it behaves like a natural monopoly.

The *UN development* system is subdivided into too many organizations, programs, and funds with overlapping responsibilities and does not have adequate financial means compared with the World Bank.

The *regional banks* frequently duplicate the activities of other large bi- or multi-lateral donors, without developing independent profiles.

The donor nations' *bilateral development policies*, contributing two-thirds of all worldwide ODA investments, too often are limited to the implementation of their own projects and programs in developing countries. Coordination among donors, harmonization of procedures, accounting, and evaluation, alignment of donor policies with the strategies and institutions of the developing nations, and joint multilateral funding do not proceed rapidly enough.

The *European Union*, a confederation, is among the international development policy actors with the greatest financial means, but it has so far not been able to translate its strength into international leadership. Roughly 60% of all ODA funds originate in the EU (EU Commission and member states combined). But the EU has failed to date to aggregate the member states' development policies and the development cooperation of the EU Commission, to increase European influence in this field and to make the European contribution to the resolution of the global development problems more effective.

The *Economic and Social Council of the United Nations (ECOSOC)* has largely failed to accomplish its task of coordinating the various UN activities and organizing leadership in the UN development system. It therefore is also incapable of integrating the Bretton Woods institutions into the UN framework.

The *stakeholders of the international organizations, i.e. national governments*, often fail to adequately assume their tasks of monitoring, policy-shaping, and leading within the international development organizations. As a consequence, the international organizations may become increasingly independent of national societies and thus create issues of legitimacy. Many governments of industrialized nations blame the international organizations and the "multilateral system" for inappropriate developments for which they ultimately are responsible themselves.



None of these problems are new or unfamiliar. For years, incremental changes have been produced at numerous reform sites. But limited structural change within individual organizations or yet another round of consultations between the headquarters of the multilateral development agencies is not sufficient to overcome existing structural deficits. Kofi Annan's appeal to focus on the overall architecture and its adequacy for future challenges instead of only examining individual components of the multilateral order is quite appropriate. In order to orient reform efforts appropriately and to effectively dismantle obstructions, more fundamental initiatives to further develop multilateralism should heed the following ten core principles and elements.

### 3.2 Challenges for Global Governance

The multilateral system and the global governance structures of development policy must be adapted to the challenges of the era of globalization:

- a) International cooperation is in the national interest*
- b) Production and protection of public goods must be assured*

#### *a) International Cooperation is in the National Interest*

The globalization process undermines domestic and foreign policy and reduces the impact of national action. Prosperity and national security increasingly depend on the containment of cross-border and global risks whose boomerang effects transgress national borders. No nation, not even the most powerful one, is exempt. In particular the governments and citizens of the industrialized nations must learn that cooperation increasingly is in the national interest. The bottom line of development policy is not charity but an investment in international stability and security, addressing ecological threats and shaping of the process of globalization. It would be impossible without cooperation beyond the world of the OECD. Hence strengthening the effectiveness and efficiency of the multilateral system becomes imperative. Many international crises and global issues of interdependence can only be resolved through cooperation among nation states and international organizations. This applies to international financial crises and climate change just as much as to the aftermath of the tsunami tragedy in Asia and transnational terrorism.

#### *b) Production and Protection of Public Goods Must be Assured*

In order to manage interdependence and achieve greater stability in a globally linked world, political leaders must be prepared to act in a coordinated manner to protect global public goods (oceans, the climate, biodiversity, human rights), or to produce them (e.g. stable financial markets, international security, international transactions subject to legal standards).

To achieve such ends, we put forward the following principles:

**The governments and citizens of the industrialized nations must learn that cooperation increasingly is in their national interest.**

### 3.3 Ten Core Principles and Elements to Build an Effective Global Governance Architecture

**We propose the establishment of a ‘Council for Global Development and Environment’ (CGDE), which would replace ECOSOC.**

**Mergers or even closures might need to be considered.**

**Mechanisms of competition must be strengthened within the international development architecture.**

- First, considering the complexity, dynamics, and scope of global development problems and the difficulties involved in properly steering the international development policy system, a *centralized, effective, and representative entity, corresponding to the Security Council, is needed within the UN*. We propose the establishment of a “Council for Global Development and Environment” (CGDE), which would replace ECOSOC.
- Second, to give the CGDE operational responsibilities, a single UN development agency is needed, and it would require adequate financial, human, and conceptual resources comparable to those of the World Bank in order to introduce competition and innovation into the international development system. This would not imply the creation of an “opposing power” to the World Bank; rather, it would mean eliminating monopolistic structures within the global governance architecture, structures which impede innovation. By far the best solution in the foreseeable future would be a leaner, well-coordinated UN development holding to replace the current system. A complementary development would ensue if a European Union capable of aggregating effectively the at present rather divergent contributions to international development policy made by its member states and the EU Commission were to move into that role.
- Third, in order to reduce the many areas of overlap and fragmentation within the international development policy system, institutions must be analyzed in depth as to their continued usefulness, and *mergers or even closures* might need to be considered.
- Fourth, organizations often share similar profiles, which is indicative of the potential for increases in efficiency and effectiveness of the global governance architecture. *Division of labor* and an orientation toward achieving the advantages of *competitiveness and specialization* are critical, also in order to strengthen the sustained effectiveness of international development policy.
- Fifth, to overcome fragmentation, *coherent policies for bi- and multilateral cooperation must be organized especially “on site” in developing nations*. The alignment efforts of the donor community, based on Poverty Reduction Strategies coordinated with the governments of the developing nations, are steps in the right direction.
- Sixth, mechanisms of *competition* must be strengthened within the international development architecture in order to accelerate the innovative search for the best solutions and to harness the advantages of specialization. More competition would also accelerate the development of a more efficient and effective division of labor and lead to a more effective development cooperation. International resources should also be provided to reform-minded governments of developing nations for technical and human resource cooperation. Such funds should not be made conditional on cooperation with the donors immediately involved.

- Seventh, as stakeholders of the multilateral organizations, governments are called upon to accept their *responsibility for and leadership within* the international development system. This applies for national parliaments as well, which must ensure that governments develop modernization strategies for the international organizations. It is the governments, after all, which must advance the state of the *global governance* structures.
- Eighth, *developing countries must be empowered to take a greater share in decision-making* within the nerve centers of the international organizations as a means of strengthening the principles of representativeness and responsibility for global development shared between industrialized and developing nations. Without equitable participation and adequate representativeness, the international organizations, in particular the Bretton Woods institutions, will not be able to achieve long-term legitimacy.
- Ninth, it is imperative from a European perspective to translate the contribution of the *European Union* and its member states – approximately 60% of all global ODA investments – into the corresponding *political influence within the multilateral development architecture*.
- Tenth, many global development problems are not amenable to resolution without the increasing *participation of civil society actors and corporations in multilateral policy processes*. The results and recommendations of the Cardoso Report of 2004 point in the right direction.

**Without equitable participation and adequate representativeness, the international organizations, in particular the Bretton Woods institutions, will not be able to achieve long-term legitimacy.**

# 4. Governance Reform of the UN Development System

## 4.1 The Need to Overhaul the UN Development System

The Millennium Development Goals (MDGs) continue to dominate the international development agenda in 2005, and will be the subject of a Summit held at the beginning of the General Assembly meeting in September. In an ideal world, the capacity of the UN itself to contribute to the MDGs should receive equal prominence. However, at present, the UN reform agenda is dominated by security issues, which were the primary focus of the High Level Panel on Threats, Challenges, and Change. The much-needed overhaul of the UN development system looks likely to be sidelined. Is it too late to reconsider?

**With the UN reform agenda dominated by security issues, the much-needed overhaul of the UN development system looks likely to be sidelined.**

The world needs the UN to play a key role in international development. It performs seven main functions, summarized in Box 1. The first six of these deal with public goods. The seventh, direct action in development and peace-keeping, is perhaps more interesting, because it could be – and often is – performed by others. The case for UN involvement here rests partly on the unique authority of the UN (e.g. in peace-keeping) and partly on the general desirability of diversity and even competition in the aid system.

The world aid system can be described as resembling a structure in which one large enterprise dominates, and many small ones struggle to survive. Using the analogy of the food retailing business, we have suggested that the world aid industry is characterized by the presence of Walmart on the one hand and many small corner shops on the other. From the perspective of a market regulator, such a structure would be seen as neither sustainable nor equitable. In this analogy, the World Bank, of course, is Walmart, dominant because of its financial resources, but also because of the weight of research and technical expertise it contains. Everyone else is, by comparison, a corner shop.

<p>Box 1</p> <p><b>UN Roles in International Development</b></p> <ol style="list-style-type: none"> <li>1. Research on cross-cutting issues.</li> <li>2. Consensus-building, advocacy, and target-setting.</li> <li>3. A forum for the preparation and negotiation of international treaties or conventions.</li> <li>4. Technical coordination and standard-setting.</li> <li>5. Information collection and dissemination.</li> <li>6. Coordination of action among agencies, both national and international.</li> <li>7. Direct action (development, peace-keeping).</li> </ol> <p>Source: ODI 1999</p>
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The UN is thus a corner shop, a fine and highly-regarded boutique perhaps, but still a relatively small player. As Figure 1 shows, it accounts for under 10 percent of aid worldwide; and as Figure 2 illustrates, it transfers only about \$3 billion a year to developing countries.

Figure 1: **Channelling aid to developing countries (2002)**  
(Total Official Development Assistance \$US58.3 bn)

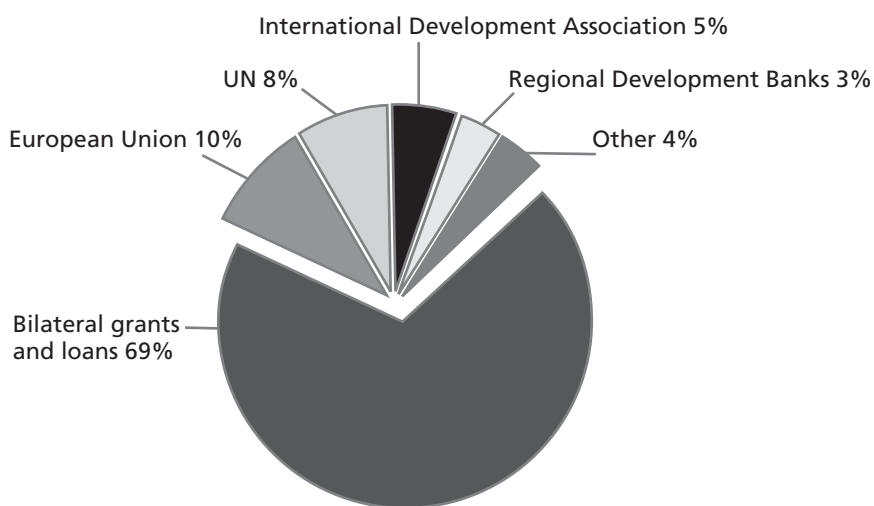
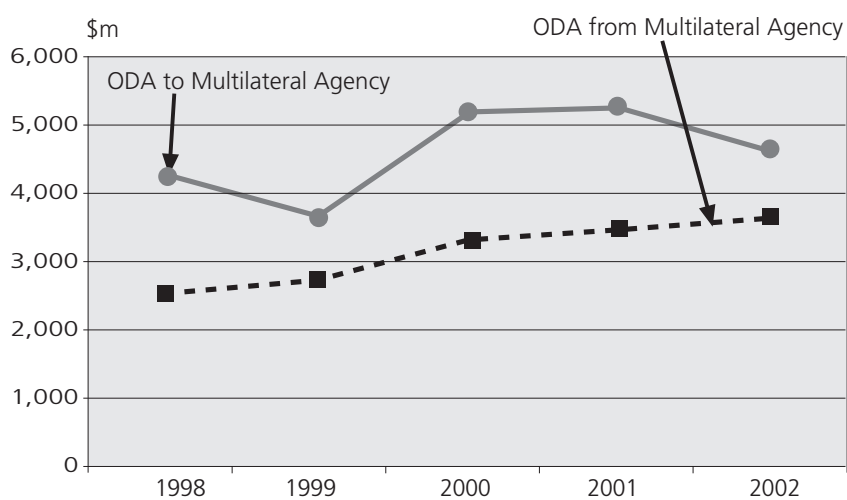


Figure 2: **UN System**



The UN is smaller in development terms than the World Bank group and smaller also than many bilateral agencies. This is partly because the UN's roles are limited, as Figure 3 illustrates.

Figure 3

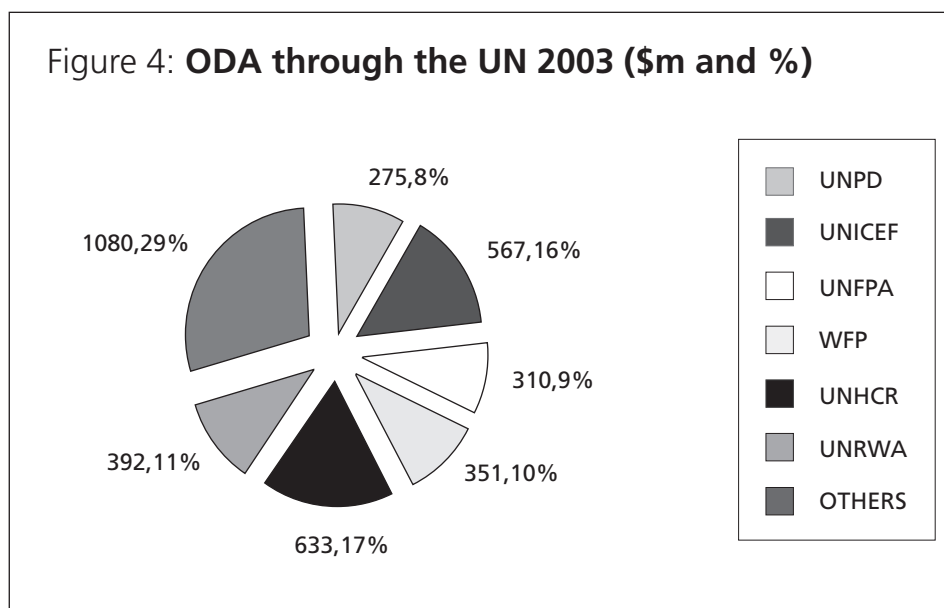
Type of assistance	Special Purpose Funds				Projects & Programs		
Donor	Humanit. Assistance	Emergency & Reconstr.	Technical Assistance	Debt Relief	Project Finance	Sector Support	Budget Support
<b>Multilateral</b>							
UN	✓	✓	✓	–	✓ <sup>2</sup>	–	–
IDA	–	✓	✓	– <sup>1</sup>	✓	✓	✓
RDBs	–	✓	✓	✓	✓	✓	✓
EC	✓	✓	✓	✓	✓	✓	✓
<b>Bilateral</b>							
DAC	✓	✓	✓	✓	✓	✓	✓

*1 No direct funding, but assistance in organization; 2 Limited support*

**The UN is not a major provider of capital to the developing world, concentrating instead on humanitarian assistance and technical cooperation, with some social support to education and health. But why should this be so?**

The UN is not a major provider of capital to the developing world, concentrating instead on humanitarian assistance and technical cooperation, with some social support to education and health. But why should this be so? Could the UN not be a source of large-scale development finance?

The relative share of different agencies in total disbursements reflects the focus on humanitarian aid and technical cooperation (Figure 4). The biggest agencies by volume of disbursement are UNICEF, UNRWA, UNHCR, and WFP.



Despite its relatively small place in the overall architecture, the UN is extraordinarily complex, as a quick glance at the organization chart in the Appendix confirms. Its key distinguishing feature is the proliferation of numerous autonomous or quasi-autonomous specialized agencies, each with its own governance structure. As the organigram shows, there are fourteen funds and programs, nominally under the authority of the Secretary-General, and as many as thirteen other specialized agencies, excluding the World Bank Group and the IMF.

Given this complexity, it is not surprising that the system is difficult to manage. Kofi Annan may have had Iraq in mind when he called in September 2003 for serious change in the UN system, but his words could apply equally to the development side:

*“ . . . The system is not working as it should  
 . . . We need to take a hard look at our institutions themselves  
 . . . They may need radical reform.”*

ECOSOC lies at the heart of the UN development system. However, the ECOSOC, even though one of the six main entities of the UN system, and, according to the UN Charter, the main entity to provide counsel as to international economic, social, and development issues, has been incapable of coordinating UN development and environment-oriented activities as mandated and creating the appropriate priority for the Rio principles of sustainable development within the international network of institutions. Its coordinating function is made more difficult because the Bretton Woods institutions, as a rule, act autonomously. It was further complicated by the proliferation of specialized agencies and programs created in the 1960s and 1970s at the insistence of the developing nations holding a UN General Assembly majority since decolonization.

Another cause of the diminished ECOSOC role was the lack of willingness of the OECD countries to grant a greater role to the “non-paying” UN members, or to even grant them control over the international financial institutions which they dominate, and where the votes are weighted according to capital contributions. Thus the democratic claim to an appropriate “voice” by the majority of states conflicts with the distribution of power within these institutions.

Another controversial question is if and how the powerful international organizations – above all the IMF, the World Bank, and the WTO – can be integrated more fully into the UN system without limiting their effectiveness and specific capabilities. In March 2004 former German President Richard von Weizsäcker, who now co-chairs the Independent Working Group on the Future of the United Nations, raised a key question in this regard:

“Might it not be possible to make the International Monetary Fund, the World Trade Organization or the World Bank directly dependent on the United Nations? Should they not, within the framework of a coherent concept, become an integral part of the UN just as the Security Council? Such structural reforms would help more individuals than the readjustment of security policy institutions. Such proposals are by their nature difficult to implement. But occasional reports by the IMF, World Bank and the WTO submitted to UN entities do not suffice.”

**Another controversial question is if and how the powerful international organizations – above all the IMF, the World Bank, and the WTO – can be integrated more fully into the UN system without limiting their effectiveness and specific capabilities.**

## 4.2 Institutional Reform Proposals

In calling for reform, Kofi Annan is heir to a long tradition, to which he himself has contributed on many occasions. The roll-call of reform efforts in Figure 5 starts only in the early 1990s, but includes distinguished contributions from outside the UN, such as the Commission on Global Governance, as well as many inside the UN, like the Brahimi Report, and Kofi Annan’s own program for renewal of the UN.

Figure 5  
**No Lack of Vision: Efforts to Reform the UN**

1992	Agenda 21
1995	Commission on Global Governance
1996	Nordic UN Reform Project
1997	Renewing the UN: A Programme for Reform
1999	UNDP Human Development Report
2000	– We the Peoples: the role of the UN in the 21 <sup>st</sup> Century – UN Millennium Declaration – Panel on UN Peace Operations (Brahimi) – Swedish Initiative on financing the UN
2002	– Helsinki Process established – Strengthening the UN – an agenda for future change
2004	– World Commission on Social Dimensions of Adjustment – High level Panel on UN Civil Society Relations – High level panel on threats, challenges and change – WEF Global Governance Initiative – Utstein Plus Initiative
2005	– Report of the UN Millennium Project (Sachs) – Report of the Secretary-General ‘In Larger Freedom: Towards Development, Security and Human Rights for All’

The Commission on Global Governance, initially proposed by Willy Brandt and headed by former Swedish Prime Minister, Ingvar Carlsson, declared the ECOSOC to be moribund in its report ‘Our Global Neighborhood,’ published in 1995, and advocated its replacement by an Economic Security Council. The Zedillo Panel (2001) and the World Commission on the Social Dimension of Globalization (2004) supported this approach, while the Independent Working Group on the Future of the United Nations (1995) proposed dividing the ECOSOC into an Economic Council and a Social Council.

One of the latest of these initiatives is the Report of the High Level Panel, submitted to the Secretary-General in December 2004. In terms of principles, the High Level Panel identified effectiveness, efficiency, and equity as its three main objectives. It is noteworthy that the Panel did give high importance to poverty reduction and well-being in its overall approach to global security. Poverty was seen as an important cause of internal conflict. Disease was identified as a threat that could easily cross national boundaries. Environmental degradation and war were seen to be related. An entire chapter was devoted to poverty, infectious disease, and environmental degradation. Among other things, the chapter concluded that

*“existing global economic and social governance structures are woefully inadequate for the challenges ahead.”*



The report, while far-reaching in its implications, puts forward a relatively modest agenda of change. Among the steps it calls for are: providing more aid, conclusion of the Doha round, combating HIV/AIDS, and investing in renewable energy – a familiar list.

The report also addresses a number of important structural issues, calling for:

- more focus and structure in the work of the General Assembly;
- reform of the Security Council;
- creation of a ‘Peace-Building Commission,’ supported by a Peace-Building Support Office, mainly to deal with failing states and post-conflict reconstruction;
- strengthening the Economic and Social Council, by establishing a Committee on the Social and Economic Aspects of Security Threats, and by focusing more in its deliberations on development cooperation;
- broadening the membership of the Commission on Human Rights;
- creating a new post of Deputy Secretary-General for peace and security;
- strengthening the secretariat.

Apart from the concern with weak and failing states, the proposals on ECOSOC are the main contributions of the High Level Panel on the development side. However, these are largely exhortatory in nature and hardly meet Kofi Annan’s call for radical reform. The key paragraph reads as follows:

*“Decision-making on international economic matters, particularly in the areas of finance and trade, has long left the United Nations and no amount of institutional reform will bring it back; and second, the Charter allowed for the creation of specialised agencies independent of the principal United Nations organs, reducing the role of the Economic and Social Council to one of coordination. The fragmentation of the United Nations funds, programmes and agencies makes this a difficult proposition at the best of times. It would not, however, be realistic to aim for the Economic and Social Council to become the centre of the world’s decision-making on matters of trade and finance, or to direct the programmes of the specialised agencies or the international financial institutions.” (Paragraph 274)*

**Three strategies are identified to help ECOSOC enhance its relevance and contribution to collective security.**

In response to this diagnosis, three strategies are identified to help the Economic and Social Council enhance its relevance and contribution to collective security, building on United Nations comparative advantage:

- First, ECOSOC can provide normative and analytical leadership (new Committee on the Social and Economic Aspects of Security Threats, regular meetings of ECOSOC and SC presidents) (Paragraph 276).
- Second, an arena in which states measure their commitments to achieving key development objectives in an open and transparent manner (Paragraph 277).
- Third, a regular venue for engaging the development community at the highest level, transforming itself into a ‘development cooperation forum’ (more focused agenda, small executive committee, stronger annual meeting with BWI, ‘guidance on development cooperation to the governing boards of the UN funds, programmes and agencies,’ strong support to coherence of UN at field level) (Paragraph 278).

It is surprising that the report, after delineating reform proposals basically preserving the ECOSOC, arrives at the following conclusion:

*“There remains the need for an entity assembling the major industrialized and developing nations focusing on the decisive interrelationships between trade, finances, environment, approaches to pandemics and the economic and social developments. Such an entity, in order to be effective, must operate on the highest level of national representatives.”*

Kofi Annan has picked up the reform issue in a report for the MDG Summit in September 2005: “In Larger Freedom: towards development, security and human rights for all.” In addition to a section on Security Council Reform, he deals with ECOSOC, a proposed Human Rights Council, the role of the Secretariat, issues of system coherence, the humanitarian response system, and governance of the global environment.

With respect to ECOSOC, the proposals are consistent with the recommendations of the High Level Panel, especially that the Council should serve as a high-level development cooperation forum.

In practice, many of the specific proposals on the table over the years have suggested better coordination within the existing system, rather than radical change. Thus, in the last ten years, the emphasis has been on coordination at the field level, through strengthening the role of UNDP Resident Coordinators, persuading UN agencies to collaborate in the preparation of a single UN Development Assistance Framework, and moving UN agencies into a single UN House. There has also been much better coordination of the funds and programs (though not the specialized agencies) through the strengthening of the UN Development Group. These initiatives are also picked up in the Larger Freedom Report, which calls, for example, for greater authority to be given to UN Resident Coordinators.

**One alternative would be to simplify funding of the UN development system, by providing a single budget framework, itself funded by a single budget process.**

An alternative would be to simplify funding of the UN development system, by providing a single budget framework covering all the funds, programs, and specialized agencies, itself funded by a single budget process.

The UK Secretary of State for International Development, Hilary Benn, argued, for example, that

*“The United Nations Office for the Coordination of Humanitarian Affairs (OCHA) is supposed to coordinate but doesn’t have the power or resources to do the job effectively. . . Needs assessments are not as objective, strong, or sophisticated as they could be. . . Humanitarian data is not good. . . Not enough is spent on prevention.”*

He then went on to say that

*“The UN Secretary-General should provide UN humanitarian coordinators with emergency powers to direct other UN agencies . . . the humanitarian coordinator should produce a Common Humanitarian Action Plan, which costs the achievement of targets and standards. I believe donors should put their money through the Coordinator. He or she should then pass the funds on to other UN agencies for the programs within the Common Humanitarian*

*Action Plan that he or she judges most critical... I propose that we establish a substantial new humanitarian fund, under the control of the UN Secretary-General, and administered by Jan Egeland, into which donors pay and from which humanitarian coordinators can draw funds early on, when a crisis threatens or occurs. I propose a new fund of \$1 billion a year."*

Kofi Annan observes in the Larger Freedom Report that this idea "deserves serious consideration".

## 4.3 The New Architecture

### *a) A Council for Global Development and Environment*

In its Annual Report of 2004 on "Fighting Poverty through Environmental Policy," the WBGU (Scientific Advisory Council on Global Environmental Changes of the Government of the Federal Republic of Germany) advocated the establishment of a Council for Global Development and Environment (CGDE) to guarantee the institutional integration of development and environmental policy to meet the Rio sustainability mandate. We consider this to be the most appropriate approach as a replacement for ECOSOC – but with the important proviso that the new body should manage the entire UN development budget.

More important than renaming ECOSOC, however, is its membership and especially the enhanced mandate of such a Council for Global Development and Environment. The de facto independence of the Bretton Woods institutions from the UN system could be overcome only if decisions by a reformed ECOSOC or its successor institution were to become more binding than the mass-produced non-binding current ECOSOC resolutions. A new institution should not interfere with the operative business of the international financial institutions but rather adopt decisions on the direction of development and environmental policies in the form of political guidelines. These should then lead to more effective coordination and coherence within international development and environmental policies.

The impact of an institution and of its decisions depends, to a considerable degree, on its membership and its decision-making procedures. We consider the following proposal developed by the Commission on Global Governance to be convincing: our proposed Council for Global Development and Environment should have 11 permanent members from the major industrialized and developing as well as threshold nations plus 11 rotating additional members elected to represent the world regions.

The proposed voting procedures should differ from those of the Security Council, for which they could become a model: permanent members should not be able to veto decisions. Decisions should rather be adopted by a majority of all votes plus a majority of all industrialized and developing nations, as already practiced successfully by the GEF (Global Environment Facility) and the Montreal Protocol on Substances that Deplete the Ozone Layer. Such North-South parity could be an important step toward reducing the historical North-South conflict and the first step towards a fruitful development partnership. The North-South structures developed during the second half of the 20<sup>th</sup> century are inappropriate for the 21<sup>st</sup> century.

**The de facto independence of the Bretton Woods institutions from the UN system could be overcome only if decisions by a reformed ECOSOC or its successor institution were to become more binding than the mass-produced non-binding current ECOSOC resolutions.**

The UN Charter would require amendment in order to accommodate the replacement of ECOSOC with a new and more powerful institution. Such a reform project could only be completed in the medium term because of considerable potential resistance should the OECD countries, and especially the United States, lose their dominance of the Bretton Woods institutions.

Since a reform of the UN development system is urgent, we propose for the summit on the Millennium Declaration in September 2005:

**The Security Council should establish an office for global development and the environment to provide expertise on these issues.**

- In accordance with the reform proposals of the Secretary-General's report "On Larger Freedom: Towards Development, Security and Human Rights for All," we support reform of the UN Security Council through broader representation and an expanded mandate which would include central issues of global development and the environment, especially in cases where international security and stability are at stake (climate change, migration, famine, etc.).
- The reformed Security Council should monitor the UN development system, the BWIs, and the WTO by publishing an annual report which evaluates their performance with regard to multilateral agreements on the environment and development. This would improve the coherence of policies and better link the BWIs with the UN system.
- The Security Council should establish an office for global development and the environment to provide expertise on these issues. A new trust fund should be established as a precursor to a single UN development budget, and should be used to fund UN development work.

These proposals transcend the Secretary-General's report and are intended to be an intermediate step on the way to a Council for Global Development and Environment.

*b) A Global Economic Council of the L20*

The report of the High Level Panel on Threats, Challenges, and Change calls for elevating the G-20 Group of Finance Ministers to the level of heads of state and government. As representatives of IMF, World Bank and WTO participate in G-20 meetings, a L-20 forum (Leaders) would develop. This could then form a Global Council with high-level authority, as the UN Secretary-General and the ECOSOC President would also participate. Such an entity would not require amending the UN Charter. Furthermore, it would not meet with powerful resistance on the part of the G-8, as they would basically form the core group of the G-20.

This is a reasonable proposal, which can be implemented relatively easily but still leaves certain questions unanswered:

- Which would be the remaining ECOSOC functions? It is one of the main UN entities but would become even more politically irrelevant and thus damage the relevance of the UN system itself.
- How would the claim to have a "voice" of the majority consisting of small and least developed countries be satisfied? The L-20 would be an oligopoly of the most influential actors worldwide with limited legitimacy only.

For the above reasons, the Council for Global Development and Environment strikes us as the most feasible option, since it would encourage direct involvement of those members previously excluded by the L-20, thereby addressing in some measure the current imbalance of power. It would also combine the necessary efficiency with the desired participation. Reforming the global network of institutions without concurrent steps towards its democratization would not bode well for the future.

*c) Cooperation between Governmental and Non-Governmental Actors and Equitable Representation*

The future impact of the UN system not only depends on improved effectiveness (legitimacy of output) but also on better participation and representation (legitimacy of input). This would also require the integration of private actors (NGOs, corporations, and associations) into mechanisms of consultation and dialogue. The World Commission on Dams provides an excellent model because it relies on cooperation between governmental and non-governmental actors. The Cardoso Panel report provided valuable pointers as to how civil society could become a greater part of UN system activities.

*d) Coordination and Coherence*

Thus far, any discussion of reforms has focused on the top levels of the global institutional network. But the lower levels must also be considered because an effective institutional edifice requires a solid supporting structure.

Since the *Jackson Report* of 1970, the UN development system has been considered ripe for reform. After the decolonization of the 1960s, and due to the pressures exerted by the resulting new majority in the UN General Assembly, a thicket of specialized agencies, sub-agencies, programs, funds, commissions, and committees has developed, all of them tasked with the resolution of individual problems of development without much coordination among them. Eventually there were roughly 50 UN bodies, expensive, bureaucratically top-heavy and producers of innumerable documents, but of few useful contributions to the solution of problems. Therefore time and again national parliaments - which appropriate funds for the UN agencies - as well as the media, have harshly criticized excessive expenditures for staff, unnecessary expenditures for ceremonial occasions and limited performance. Further criticism has been leveled against inadequate coordination between the UN agencies due to poorly defined mandates and institutional rivalries, and often leading to inefficient parallel or even conflicting activities. Even if a "*Council for Global Development and Environment*" ever came into being, these problems would need to be confronted.

*e) Inter-Institutional Coordination*

In the light of the above, the institutional brush of the UN system must be cleared, top-heavy institutions must become leaner, and uncoordinated parallel activities must be restructured. The required UN system reform must resolve first and foremost the problem of internal coordination.

The Administrative Committee for Coordination (ACC) established for this purpose in 1946 was unsuccessful because the specialized agencies and programs had

**Reforming the global network of institutions without concurrent steps towards its democratization would not bode well for the future.**

**The required UN system reform must resolve first and foremost the problem of internal coordination.**

become mainly independent, even more easily so because they were endowed with separate administrative councils and budgets. This inhibited any coherence between sector policies. The ACC was reformed in 2001 and renamed Chief Executives Board (CEB). It is chaired by the UN Secretary-General and reports to ECOSOC. The CEB has 27 member organizations, including specialized agencies, funds and programs as well as the WTO, the IAEA, and the Bretton Woods institutions.

So far, no pronouncements may be made as to CEB impact and accomplishments but its authority arises from the positions of its members as secretaries general of the participating organizations. The latter is both drawback and advantage because the special organization heads only report to their own governing bodies and when in doubt represent the interests of their organizations.

Currently the CEB, and not ECOSOC or UNDP, is the main coordinating organization, as the Bretton Woods institutions and the WTO participate in joint consultations even though no binding decisions are adopted, a fact which limits the political weight of the council. The role of the CEB remains marginal compared with the role and responsibilities of the Security Council. At a time when problems of global development and environment are increasingly considered threats to international security, the time has clearly arrived to establish a "*Council for Global Development and Environment*" as a key institutional player within the international development community.

The current German World Bank Executive Director (Eckhard Deutscher) underlines the importance of structural reforms of the global governance system, because without them the MDGs will be unattainable. He considers the entire system of multilateral cooperation and its instruments ripe for reform and advocates no less than a fundamental restructuring of global governance and the adaptation of the multilateral development and financial systems to global risk developments.<sup>2</sup>

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<sup>2</sup> Deutscher, Eckhard. 2003: The World Bank calls for Reforms. On the Efficiency of the Multilateral Development Institutions, D+C (*Development and Cooperation*) 30 (8-9): pp. 336-339.

# 5. Governance Reform of the Bretton Woods Institutions

There is a growing consensus that International Monetary Fund and the World Bank are no longer – if they ever were – able to manage the challenges posed by globalization. Critics of the Bretton Woods twins come from a number of different directions. For development activists, the IMF and the World Bank are largely creatures of their G-7 shareholders: policies that serve their direct financial interests, such as open trade and capital markets, receive preferential consideration by the respective institution's governing bodies; those which do not, such as substantially larger transfers of wealth from industrialized to poorer developing countries of sub-Saharan Africa, do not. For so-called free-market advocates, the Bretton Woods twins have manifestly failed in their task of promoting productive, entrepreneurship-based societies. Financial assistance provided by the World Bank and the IMF frequently ends up in the bank accounts of kleptocratic elites, while problems of malnourishment and income inequality continue to worsen. For both camps, the fundamental reality is the failure of the Bretton Woods institutions to measure up to appropriate performance standards, as defined by them. While calls for their outright abolition have become less frequent, even the strongest supporters of the IMF and the World Bank acknowledge the need to respond more effectively to their critics. And they have been responding.

**The BANK:** Until a decade ago, the World Bank's alleged and real shortcomings received the bulk of critical attention. Its project-oriented, poor-country focus made it a natural target for environmental and civil society groups. Since the mid-1990s, however, the Bank has made considerable strides to repair its image and performance. The World Bank takes the fight against poverty and corruption much more seriously than before and has contributed to increasing life expectancy by 20 years and reducing illiteracy by half in the past 40 years. It has more staff in the field today and the success rates of projects managed by the World Bank have risen. Aid is being used more effectively today because of improvements in allocation and management of development assistance. Additionally, the World Bank Group is encouraging private-sector investment in small and medium size enterprises and increased its focus on low-income countries, providing \$52 billion in debt relief to 27 low-income countries.<sup>3</sup>

The governance problems of the World Bank have mainly to do with a lack of accountability to the shareholders and outdated governance structures, expressed in the Articles of Agreement. They represent the biggest obstacles to a successful adaptation of the World Bank to a globalized world.

**The IMF:** From its inception in 1944, the International Monetary Fund has been viewed by its shareholders as a guardian of global monetary and financial stability. In contrast to the World Bank, IMF lending was meant to be short-term, ameliorative, in nature. Monies were to be made available for the sole purpose of

**There is a growing consensus that IMF and World Bank are no longer able to manage the challenges posed by globalization.**

**The World Bank takes the fight against poverty and corruption much more seriously than before. Indeed, it has contributed to increasing life expectancy by 20 years and reducing illiteracy by half in the past 40 years.**

<sup>3</sup> See Wolfensohn, James D. 2003: "A New Global Balance. The Challenge of Leadership," Address to the Board of Governors, Dubai, September 2003.

ting over countries experiencing short term balance-of-payments difficulties. With the change of clientele – from industrial to developing countries in the 1970s and 1980s – IMF lending was made contingent on country adherence to a negotiated reform program that, ideally at least, tied financial assistance to the successful implementation of a negotiated ‘reform’ program. As the IMF’s client base expanded, its public visibility, and political vulnerability, increased. All of these trends were accelerated with the onset of financial crises in Russia, Mexico, Asia, Turkey, and Argentina over a decade-long period. By the late 1990s, the IMF was coming in for as much, if not more, criticism as its sister institution across the street.

The IMF’s response to a growing volume of criticism was not all that different from the World Bank’s. Under Michel Camdessus (IMF Managing Director from 1987-2000), the Fund embarked on an ambitious effort to reorient its traditional lending programs in the direction of more explicit poverty-reduction, welfare-enhancing goals. Under Camdessus and his successor, Horst Koehler (IMF Managing Director, 2000-2004), the IMF undertook major efforts to address longer-term structural problems in sub-Saharan Africa and other poor regions of the world. Fund-Bank collaboration in the realm of poverty lending and reform, while never easy, nevertheless improved during this period.

**Global development institutions must show the sophistication and discipline to stop enabling perpetually dysfunctional systems.**

But the reform proposals in this study are also offered with the understanding that poverty alleviation and development cannot be achieved by external sources alone. After all, global development assistance represents only a sliver of the resources available in the developing world. Rather, sustaining the intensive and long-term efforts needed to meet the MDGs must ultimately come from the peoples and governments of developing societies themselves. The international community can at best play a complementary and supportive role. With this in mind, the recommendations discussed here are oriented toward recalibrating the incentive structures of the international development architecture so as to encourage and reward development-oriented policies. Writ large, this is currently not the case. The flipside of this goal must also hold: global development institutions must show the sophistication and discipline to stop enabling perpetually dysfunctional systems.

## 5.1 Making Multilateral Finance and Development Programs More Responsive to the Poor

**The charters of the Bretton Woods institutions stipulate that decisions regarding financial allocations are to be based purely on economic criteria. Political considerations are expressly prohibited.**

In its essence, what is government but a means of aggregating a society’s interests and allocating its available resources accordingly? Naturally, then, the political system a country has in place will have a fundamental influence on how and how effectively development resources are used. A leader who is head of state because he dominates the party structure of a one-party system has a different set of incentives than a leader who was chosen by the majority of his or her compatriots. Similarly, a president whose basis of power is his shared ethnic heritage with leaders of the military will likely allocate resources in a different manner than a leader in a comparable state who has forged a majority coalition encompassing multiple ethnic groups. Accordingly, the source of a government’s claims on authority should be a central consideration when multilateral development institutions allocate their funds. Yet, currently, it is not.



Written at the end of WWII, the charters of the Bretton Woods institutions stipulate that decisions regarding financial allocations are to be based purely on economic criteria – a principle that was subsequently adopted by the other regional development banks. Political considerations are expressly prohibited. This is the case despite increasingly strong empirical research demonstrating the consistently superior development outcomes that democracies, on average, produce relative to non-representative governance structures.<sup>4</sup> This includes marked differences on measures such as life expectancy, infant mortality, agricultural productivity, and rates of educational attainment, among other indicators. Democracies also typically score higher on various governance measures such as rule of law, independent media, transparency, control of corruption, and accountability. They do this without spending more on their social sectors or incurring greater debt burdens. Nor is it a reflection of any donor largesse towards democracies. The level of ODA (Official Development Assistance) provided to developing country democracies and autocracies are nearly identical – even in the post-Cold War era.

It is not that international financial institutions (IFIs) are unaware of the linkages between democratic governance and development. Over the past 15 years there have been numerous reports from the World Bank and other multilateral organizations that cite lack of democracy, accountability to the general public, and transparency as central contributing factors to underdevelopment.<sup>5</sup> However, due to the political prohibition clause in their charters, they have been hamstrung from including this consideration in their decision-making processes. They have attempted to work around this obstacle by giving increased prominence to economic governance – rule of law, anti-corruption efforts, overcoming cumbersome regulatory environments, and greater country “ownership” of IMF and World Bank programs. These efforts have contributed to better results. But a great deal more remains to be done on this front. For one consideration: adherence to a system of rule of law does not occur in isolation from an independent media, watchdog groups, or an empowered legislature that can expose digressions from the law and serve as a check on power. In other words, since laws are enforced by governments, rule of law is ultimately rooted in the legitimacy, accountability, and legality of the political institutions that produce a government’s leaders. A system of law in which leaders remain above the law is not rule- but discretion-based and therefore is ultimately unreliable.

To pursue their development goals more effectively, the IFIs must adapt their institutional framework (Articles of Agreement). This will be, undoubtedly, a difficult procedure. However, the political prohibition clause effectively stands in the way of facilitating greater economic governance and accountability. Consequently, both management and shareholders of the World Bank and the International Monetary Fund should more openly discuss issues of political substance and democratic governance in the design and implementation of their support programs. Among development institutions, the European Bank for Reconstruction

4 See for example, Halperin, Morton, Joseph Siegle, and Michael Weinstein. 2004. *The Democracy Advantage: How Democracies Promote Prosperity and Peace*. New York: Routledge; Kaufmann, Daniel, Aart Kraay, and Massimo Mastruzzi. 2003. “Governance Matters III: Governance Indicators for 1996-2002.” World Bank; Zweifel, Thomas and Patricio Navia. 2000. “Democracy, Dictatorship, and Infant Mortality,” *Journal of Democracy* 11(2): pp. 99-114.

5 For example, World Bank. 1990. “Adjustment Policies for Sustainable Growth,” *Policy and Research Series* 14; World Bank. 1989. “Sub-Saharan Africa – From Crisis to Sustainable Growth: A Long Term Perspective Study”; World Bank. 1992. “Governance and Development”; World Bank. 2000. “Bolivia: From Patronage to Professional State”; Democracy Coalition Project. 2002. “Defending Democracy: A Global Survey of Foreign Policy Trends.”

and Development (EBRD) comes closest to this ideal. Relations with developing countries that are democratically governed should be distinguished from relations with those that are not.<sup>6</sup> Specifically, the World Bank and the IMF would accept the prerogative of democratic leaders to define their development priorities and the strategies to reach them. Consistent with this, the IFIs would eschew promoting a single development template or requiring a particular sequence of reforms. Such an approach would make the relationship between the IFIs and developing countries more of a genuine partnership. The IFIs would not relinquish their commitment to fiscal and monetary prudence. They would, however, recognize that there are multiple potential development pathways possible within the myriad of challenges a society faces. By so doing, they would also acknowledge that the trade-offs between economic adjustment and social welfare are more complex, and potentially more costly, than previously understood. Stated differently, sustained economic reform is a matter of negotiating among complex competing interests so that the broader social good is advanced. This is inherently a political process. Democratically selected leaders and an informed – and enfranchised – public, in collaboration with the IFIs, are the logical focal points for balancing a country’s short-term welfare vs. efficiency trade-offs.

**To reduce the strain of economic reforms, the IFIs should also commit themselves to eliminating all ‘odious debt’.**

To reduce the strain of economic reforms, the IFIs should also commit themselves to eliminating all “odious debt” – debt that has been accumulated by a previous autocratic (and often predatory) government and that was not used to advance the country’s development. New democracies typically inherit large debt burdens and helping – as an exception rather than the rule – to alleviate the corresponding debt service expands the share of government revenues that can be used for societal priorities as well as boost momentum for reform during the critical periods when substantial headway can be made.

The IMF, in particular, has a critical role to play in promoting this form of debt relief. By recognizing that a new and more legitimate government has come to power, the Fund should have the mandate and dexterity to enact more timely lending instruments independent of the past practices of a predecessor regime. Such relief could provide an opportunity for the new government to demonstrate its commitment to macroeconomic prudence, and serve as an effective bridge until the thornier challenges of negotiating debt restructuring and elimination can be completed. Meanwhile, as other IFI and bilateral lending is often contingent on an ongoing IMF arrangement, timely negotiation of an appropriate IMF financing with a new democratic government could catalyze additional sources of financial support during the critical transition period.

**The World Bank and the IMF should enter into longer-term financing agreements with developing country democracies.**

In addition to demonstrating greater flexibility, the World Bank and the IMF should enter into longer-term financing agreements (e.g. 10 years) with developing country democracies. This would facilitate integrating longer planning horizons into economic policymaking while facilitating the short-run compromises that are necessary. In the process, constituents who are being asked to make sacrifices would see tangible benefits from pushing on with reforms. Jointly determined benchmarks would be established to assess progress towards the 10-year goals. As the benchmarks were attained, loans could be converted to grants and the target country would be eligible for new and additional financing.<sup>7</sup>

<sup>6</sup> To be clear, we are not advocating any form of partisan politics. Rather, it is the *system* of governance in a country that should be explicitly taken into consideration.

<sup>7</sup> A derivative of the recommendation to convert loans to grants was made in the Meltzer Commission Report.

If progress toward the benchmarks is not evident, then additional funding would not be released. Joint reviews assessing alternative courses of action would be undertaken. While new funding would not be forthcoming at this stage, loan terms could be adjusted if a good-faith effort to meet the benchmarks was being made. Continued divergence from the target benchmarks would result in a cessation of all lending. Technical support would continue to be made available, as long as requested by the host country.

Needless to say, the course chosen by a democratic government may differ in substantial ways from the accepted guidelines and expectations associated with routine IMF and World Bank lending. The hope is that a more give and take process – as envisioned and implemented in the joint IMF-World Bank Policy Framework Paper (PFP) exercise – will inevitably promote greater ownership, innovation, and country “customization” of development initiatives. Furthermore, this approach arguably offers greater potential to sustain a reformist coalition over an extended period of time compared to a strategy solely focused on efficiency considerations, (which too often leads to an early departure of reformers).

The IFIs would continue to lend to societies with democratizing and autocratic governments. However, they would not be privy to the same degree of flexibility or extended time commitments afforded to democracies. Recognizing that money is potentially fungible, checks would need to be instituted to ensure that these resources are targeted solely for program objectives. Similarly, democratic governments that had not demonstrated a commitment to curbing corruption would also be subject to the more constrained lending rules. A measure such as falling below the median on corruption scores both within their region and globally would qualify them as such.

To secure decent domestic governance in failed, failing, and occupied states, shared sovereignty arrangements under which multilateral financial institutions would share authority with recipient nations over some aspects of domestic macroeconomic and financial decision-making, could be a useful addition to the policy repertoire.<sup>8</sup>

An underlying assumption here is that attaining the MDGs will require more than external resources. That is, domestic institutional structures must be oriented toward improving program performance. Paraphrasing Thomas Friedman, governments are like light sockets – if they are bad, no matter how much electrical charge you try to pulse through them, they will not generate light. Our approach calls for an increase in development funding internationally but, just as importantly, that the allocation of these resources be seriously reexamined so that they are targeted to places where they can have the most impact (i.e. to places where the light sockets are distributing energy).

Taking democratic governance into consideration in funding allocations would result in a greater share of World Bank and IMF resources going to countries with strong policy frameworks, incentives to pursue initiatives that benefit the general population, accountability structures to limit abuses, and institutions that augment transparency such as an independent media. In short, this approach would advance progress toward the MDGs.

**The IFIs would continue to lend to societies with democratizing and autocratic governments. However, they would not be privy to the same degree of flexibility or extended time commitments afforded to democracies.**

<sup>8</sup> Krasner, Stephen D. 2004: “Sharing Sovereignty. New Institutions for Collapsed and Failing States,” *International Security* 29(2): p. 89.

**Adopting a more flexible posture toward democratic governments would represent an institutional shift in the global development architecture, giving more voice to the poor.**

Adopting a more flexible posture toward democratic governments would represent an institutional shift in the global development architecture, giving more voice to the poor. It is also consistent with increasing the level of popular participation – a long-recognized factor in development effectiveness. Working with democratic governance systems, moreover, shifts the burden of oversight for development initiatives closer to the populations these schemes are intended to help. Rather than relying on conditionality arrangements between the World Bank and the IMF and national governments – with all the challenges of judging compliance this entails – expectations for accountability, responsiveness to the general public, and demands for transparency will shift to the domestic stage. Democratic political leaders will face scrutiny from their populations to demonstrate how they have used the resources at their disposal to improve a society’s overall level of well-being. This will be further enhanced by publicly announcing the details of all IFI funding going into a country. This would inform the general population of the resources that are available for specific activities and regions – fostering greater oversight and transparency. It is also consistent with the reality that these populations are the ultimate guarantors of the loans negotiated on their behalf.

The IMF has made commendable progress over the past several years in increasing the transparency of its relations with member states. Today more than three-quarters of IMF country reports are now published. This trajectory should be continued with the goal of achieving 100% disclosure. To this end, the Fund should more clearly communicate instances when a country has declined to make public its IMF report, improving the signaling benefit this process can have vis-à-vis private capital markets.

In sum, by taking advantage of the accountability structures built into democratic institutions, incentives for improved performance will be enhanced. This is intrinsically more efficient, not to mention politically advantageous in freeing the IFIs from the paternalistic role they have been perceived as playing for so long. As a result, a more genuine partnership would be created.

## 5.2 Working through More than National Governments

An increasingly common theme heard in development policy circles is that the development architecture does not work effectively because there is insufficient competition among donors. Consequently, as discussed earlier in this study, there are no incentives for international development agencies to improve their performance. Rather, national governments are stuck with a limited number of donors and must adjust their policies to accommodate donor preferences or risk losing access to future aid flows.

**There is also the problem of inadequate competition on the ‘demand’ side of the development assistance equation.**

There is also the problem of inadequate competition on the “demand” side of the development assistance equation. More precisely, nearly all multilateral and bilateral assistance provided to a country goes through the national government. By some estimates this accounts for 93% of all development assistance. Under this scenario, donors are in the weaker bargaining position since they are all trying to direct their resources through the same channel. In this sense, donors are indeed competing with one another – but in an artificial marketplace. The incentive is – not to implement the most effective development initiative – but to beat their “competitors” to the punch of programming resources through the government.

This arrangement brings out the least beneficial action from each direction. National governments have little incentive to improve development performance and are in a strong position to play one donor off against the other. Donors, meanwhile, face more pressure to channel their resources than to target them effectively. Furthermore, donors exacerbate this dynamic by regularly undercutting one another. If one holds back additional funding due to malfeasance on the part of the government or lack of progress toward previously agreed-to objectives, another is quick to step in and fill the funding “gap.” Any message of accountability that might have been communicated by the first donor is muffled.

Major changes are required, therefore, if the global development architecture it is to create incentives to assist the poor. On the demand side, the number of spigots through which aid resources can flow must be expanded. In addition to national governments, multilateral development agencies should target their resources through provincial governments, the private sector, and NGOs to a much greater extent than at present. However, the effects could be profound. This would move the system toward a reality where innovation, accountability, and impact are encouraged and rewarded. Competition among a variety of implementers would set up a circumstance where the performance bar is constantly edging upward. Examples are incentive-based models for lending and financing on a sub-national level such as provincial and local governments.

Another channel that can be tapped to expand the flow of development assistance is the private sector. As the major engine of productivity, employment, and wealth in a society, the dynamism of the private sector is a vital force in achieving the MDGs. A stable source of household income and asset accumulation has a direct bearing on children’s nutrition, prospect for attending school, and access to quality health services. The human capital development and built-in incentives for sustainability within the private sector also overlap with key development objectives. For a variety of reasons, however, most multilateral development agencies have largely bypassed significant support to the private sector. For example, the IFC, the World Bank entity designated to fund private-sector initiatives, contributes less than 15% of the World Bank’s annual outflows. Aside from revising the role of the IFC, the essential objective should be to more effectively integrate the IFC’s operations within the broader World Bank efforts to establish sound institutions that facilitate sustainable development.

The obligation to direct World Bank and IMF resources through central governments has undoubtedly fostered this pattern. Moreover, attempts to work around these constraints by sponsoring certain private-sector initiatives through the government have often proven disastrous. For example, as micro- and small-enterprise programs were seen as an increasingly effective development initiative in the mid to late 1990s, a number of IFIs decided to jump on the bandwagon. However, because of their operating procedures, they tried to run their micro-enterprise initiatives through central governments. In the process, they overlooked some of the key factors that contributed to the success of micro-enterprise programs – the technical assistance provided entrepreneurs prior and subsequent to obtaining loans, the unbiased eligibility criteria, and the social responsibility built into repaying loans. This generated schemes with larger loans, less oversight and technical assistance, and more patronage-based lending. The result was a greater percentage of defaults, fewer successful enterprises, and increasingly lax norms

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for loan repayment. More broadly, this system often contributed to a further consolidation of political and economic power. Rather than dynamism, they got stagnation.

A major expansion and restructuring of the mechanisms for private-sector support within multilateral development agencies is necessary. The focus would be on strengthening financial institutions in developing countries and increasing access to capital for entrepreneurs who are excluded from commercial sources. Technical services to undertake necessary marketing, environmental, and legal surveys would be another key element of this effort. Such an engagement would, in turn, complement IFI efforts on economic policy reform.

Emphasis should be given to targeting medium and small enterprises. These are generally the most starved for capital while also representing a dynamic sector for employment generation and innovation.

Emphasis would be given to targeting medium and small enterprises. These firms are generally the most starved for capital while also representing a dynamic sector for employment generation and innovation. They are also the backbone of the small middle class that exists in most developing societies – a critical constituency for reform and moderate economic and political policies. Only 2% of IFC loans currently target small and medium entrepreneurs.

NGOs should also become an expanded target for World Bank resources. They frequently provide valuable services at the community level. Their relatively long-term commitment, ability to mobilize community participation, and expansion of human capital in the poorest regions of a country are important positive contributions. Moreover, they often attract additional financial and technical resources to these communities. For these reasons, the World Bank should loosen the restrictions against providing resources to NGOs, without undermining their independence. They are important actors in the drive to meet the MDG targets.

**NGOs – important actors in the drive to meet the MDG targets – should also become an expanded target for World Bank resources.**

Arguments against NGO support – that this detracts from funding and capacity development in the public sector – are not compelling. The current near monopolization of IFI funding by national governments has not provided incentives for improved public-sector performance. Furthermore, it may take many years or decades before even developmentally motivated national governments can field and sustain extensive public health, education, and agricultural networks throughout the country. By coordinating with national and provincial governments, NGOs can help fill that gap in the meantime. If the aim is to improve development effectiveness, therefore, NGOs should be part of the IFI equation.

Lest there be any misunderstanding, the proposals put forward to expand the channels through which IFIs target their resources are not meant to undercut the public sector – but to enhance the efficiency and effectiveness of development financing. The public sector is vital for generating certain public goods and services on which all other development depends. We support continued substantial IFI support to governments. However, this needs to be done in a discerning manner. Not all governments are equally committed to development effectiveness. By expanding the channels through which IFIs work, they will be in a stronger position to target their resources commensurately to those governments that are most committed. In the process, the IFIs will be strengthening a global system that gives incentives for good performance.

## 5.3 Governance Reform: The Critical Issues

Outgoing World Bank President James Wolfensohn has pointed out that the development goals proclaimed by the international community will not be realized. The figures speak for themselves: worldwide, US\$ 900 billion per year is spent on arms, \$350 billion on subsidies and only \$57 billion on development cooperation. The World Bank acknowledges that there is a problem of political responsibility and legitimacy for structural reform as a condition for assistance.

However, to address this issue, reform has to come from the shareholders of the World Bank who have the main responsibility for multilateral financial institutions. The relationship between the Executive Board as a representative of the shareholders and the management is crucial: The Board has to use its control function more effectively. Management decisions should be subjected to shareholder control, not as a bureaucratic hurdle but as a process to improve the quality of decision-making.

Major critical governance issues are:<sup>9</sup>

- The structure of the IMF and World Bank Executive Boards is not representative. It does not reflect the present distribution of economic power and, more importantly, does not give aid recipients an appropriate say. Voting structures, particularly the weight of developing countries, need to be strengthened.
- Executive Directors as government representatives are faced with a dilemma: They have a hard time to fully and adequately represent often very complex government positions. They must be in a position to stand up to pressures from national governments if necessary, too, and openness should be rewarded, not penalized. At present, maintaining a strong relationship with national government institutions tends to supersede effective development programming.
- Executive Directors and shareholders of non-G-7 countries frequently find themselves at a disadvantage in dealing with their powerful American, European, and Japanese colleagues – whose financial and political clout play a dominant role in framing policy discussions at the IMF and the World Bank. To some extent, this disadvantage is ameliorated by the long-established, and tenaciously adhered to, tradition of informal consensus that makes it possible, and frequently necessary, for all members to arrive at mutually acceptable policy solutions before moving forward.
- There is a lack of accountability for decisions of the Executive Board with financial implications. To facilitate a constructive engagement of executive directors with their domestic authorities and at the same time to strengthen the IMF's and World Bank's Executive Board's accountability to the poor in developing countries, the creation of advisory boards for country directors is recommended. If that could be achieved, the country directors would neither be the exclusive instruments of a shareholder nor an instrument of the Executive Board.

**The structure of the IMF and World Bank Executive Boards is not representative. It does not reflect the present distribution of economic power, and it does not give aid recipients an appropriate say.**

<sup>9</sup> See Deutscher, Footnote 2.

**Governments and government agencies are often not close enough to the reality of global development.**

**The EU has to focus its activities and resources and speak with a more unified voice, also in the multilateral financial institutions.**

**The IMF must address representation issues within its Executive Board to ensure continued credibility among members.**

- Governments and government agencies, more often than not, are not close enough to the reality of global development and they also do not understand sufficiently the function and the shortcomings or dynamics of the multilateral development institutions. How to improve the necessary communication between a predominantly national, interest-based thinking in national development bureaucracies and the level of discourse in IFIs is a gap that cannot be easily closed. One potentially promising solution to this difficulty is to encourage national bureaucracies to place greater emphasis on multilateral financial considerations in their training programs.
- Respective Executive Boards of the IMF and World Bank will require substantially improved technical and policy guidance if they expect to play a more effective role in the design and implementation of their institution's policies. The Executive Board as a Resident Board is a questionable concept. A more equitable and balanced country-based decision-making and oversight system is desirable. For one obvious example: while each of the major shareholders in the IMF has its own chair, there are but two Executive Directors available to represent, respectively, the interests of English- and French-speaking African countries. How difficult would it be to provide this diverse and important constituency with a few more seats on the Board?
- The EU has to focus its activities and resources and speak with a more unified voice, also in the multilateral financial institutions. There are, respectively, 8 European Executive Directors on the Executive Board of the World Bank and on the Board of the IMF.
- In many cases the duration of both the tenure of the Executive Director of the World Bank and the World Bank field staff is too short to generate the highest level of experience.
- World Bank policies should not only address problems of developing countries. Development policies are also shaped by economic policies of industrialized countries. Their trade policies, customs, and tariffs often undermine their own development goals. A good example is the issue of market opening, in particular for agricultural goods. A serious strategy of market opening in industrialized countries would, if implemented, save the same industrialized countries a lot of resources spent for development aid.
- The IMF must address representation issues within its Executive Board to ensure continued credibility among members. In particular we support a recalibration of the quota system distributing relative shares of influence among member countries (and translated into regional constituencies on the Executive Board) every 10 years. This would be based on a 3-5-year average share of global GDP to avoid overrepresentation of fluke performers. Adding such flexibility would provide a mechanism to adapt to the ongoing changes in the global economy. Countries such as Brazil, South Korea, and Chile would gain a greater voice in the Fund, commensurate with their sustained growth. In the process, responsiveness to the special circumstances of emerging markets would be recognized while the perceived fairness of this critical international institution would be strengthened.



Performance can also be enhanced by means of certain management reforms. Prime among these is the need to remove loan volume criteria from staff or agency appraisals. This tends to discount the value placed on development effectiveness. Volume criteria tend to encourage higher loan/staff ratios – not necessarily the balance that will have the greatest impact on MDGs. This also feeds the dysfunctional dynamic of donors feeling compelled to program their development budgets through governments that are not able to absorb or committed to using these resources effectively. The bottom line of an IFI is not just funding volume or profitability but social and economic impact. Accordingly, the World Bank requires a different business plan and means for measuring staff performance than that of commercial banks.

One aspect of this would be to establish an autonomous evaluation unit within the World Bank and regional development banks – akin to the IMF's Independent Evaluation Office. This would provide a more credible barometer of the effectiveness of the banks' projects. It would also increase the availability of information on internal decision-making processes, fostering much-needed scrutiny, self-correction, and opportunities to adapt lessons learned.

Another element of strengthening internal incentives is to orient staff and agency incentives in a way that rewards creativity, customization, and sustained impact of interventions. Given the frequently long lag times before development initiatives reach fruition, an emphasis on effectiveness poses a particular vexing management challenge. This would encourage a longer-term perspective in decision-making and a stronger mechanism to link staff actions and development performance (judged within the development context and actors with whom they are interacting, naturally).

Given that one of its priority roles is to identify and head off financial crises, expanding avenues through which dissenting voices can be heard is particularly critical for the IMF. One of the criticisms the Fund has made of itself in recent crises is that the close relationships Fund staff develop with authorities in client countries often slows their recognition of the often non-linear warning signs.

The Fund, therefore, should create more space for concerns of staff somewhat removed from a country context to be voiced. This could take various forms, including a mechanism for anonymous input to be communicated to senior leadership, allowing dissenting opinions in country reports, or appointing an independent analyst as a devil's advocate to actively highlight a country's potential susceptibility to financial instability. Consistent with this objective and the broader goal of enhancing transparency in the workings of the Fund, this report supports calls for the notes of all Executive Board meetings to be made public. By allowing for a gradation of opinion to be expressed on any given circumstance, this procedure would increase the individual accountability of all Executive Directors to play an active oversight role.

**The IMF should create more space for concerns of staff somewhat removed from a country context to be voiced.**

The flipside to creating incentives for staff innovation is incorporating more discipline in loan-making procedures so that funding to non-performing actors is not perpetuated. If a previous recipient has been unable to account for allocated funding or has a record of poor implementation, then the IFIs must have internal incentives that reward cutting off new lending to this recipient. Under the current incentive structure, there is a tendency to program new lending regardless of previous outcomes since this volume of activity demonstrates the IFIs' relevance.

Concurrently, more holistic measurement criteria should be taken into consideration in assessing staff- and country-level performance. For example, greater emphasis could be placed on process issues such as the manner by which aid allocations and country specific programs are assembled, the actors that have been engaged, the consistency of the program with the country's development objectives, and how the previous developmental and accountability track record of the government have been considered. All of these management reforms would be oriented toward revising internal IFI procedures so that they were more clearly giving incentives to IFI staff to pursue programs that enhance development effectiveness.

# 6 Cooperation between the Bretton Woods Institutions and the UN

## 6.1 Prerequisites for Coherence, Coordination, and Effectiveness

We strongly support the findings of the *Jeffrey Sachs Commission*, which calls upon all of the major international organizations to focus greater attention on those areas where they enjoy a relative comparative advantage vis-à-vis the others. Well-defined mandates and clear-cut division of labor are important prerequisites for the coherence, coordination, and effectiveness of international development policy. For a number of UN agencies, this will require an initial evaluation effort to determine their relative effectiveness with respect to the following entities:

### *The United Nations Development Programme (UNDP)*

UNDP in particular plays a major role in considering the future of the UN development system.

The UN Development Programme (UNDP) was established as early as 1965 for the financing, overall planning, and coordination of the different technical cooperation programs enacted by the UN system. UNDP became the largest actor in this field, with a presence in 166 countries. In most instances, its representative is the highest-level UN representative and the de facto UN ambassador. It also chairs the UN Development Group (UNDG) instituted in 1997 by the Secretary-General to improve the coordination of all UN system development activities. Its Executive Committee, with members from 36 countries elected by ECOSOC for a three-year term, decides on programs of the UN Environment Programme (UNEP) and the UN Population Fund (UNFPA). It is also responsible for other UN agencies with development activities.

In spite of its comprehensive mandate and the high degree of acceptance UNDP enjoys in developing countries, the organization has neither been able to counterbalance the World Bank nor to effectively coordinate all UN development activities, its core function. It is in particular the higher-ranked UN specialized agencies which question its coordinating function and which are intent on protecting their own territory with the support of their respective administrative councils.

Conflicts with the World Bank, which considers itself to be a *lead agency in this area*, and has considerably greater larger resources at its disposal, are unavoidable not only because both claim poverty reduction as their mandate but also because UNDP has always considered itself to be a critic of World Bank structural adjustment programs and received the support of the developing nations. UNDP should reasonably focus on politically sensitive areas such as the promotion of good governance and democracy as the World Bank abides by its proclaimed policy of political neutrality. It is not the task of UNDP to support numerous small projects to fight poverty but rather to coordinate the activities of UN agencies.

**Despite its comprehensive mandate and the high degree of acceptance UNDP enjoys in developing countries, the organization has neither been able to counterbalance the World Bank nor to effectively coordinate all UN development activities.**

It is not yet clear whether the organizational reforms initiated after 1999 by Mark Malloch Brown, the UNDP Administrator (organizational decentralization, leaner procedures, limited focus), will strengthen the UNDP position within the UN system and international development policy. At a minimum, UNDP will have a stronger position within the UN system.

Considering the current World Bank quasi-monopoly within the international development architecture, the UNDP reorientation has the following dual impact:

**Through specialization, UNDP could turn into a relevant player next to the World Bank.**

First, if there were a “*Council for Global Development and Environment*,” the Bretton Woods institutions would be encouraged to collaborate more closely with the United Nations and its agencies. If UNDP was also successful in effectively improving the coordination and aggregation of the operative activities of the numerous UN development policy agencies, the multilateral institutional structure for development policy would become more balanced.

Second, if UNDP were to concentrate operatively on good governance and democracy-building, this important aspect of development policy would become more visible and more effective. Through specialization, UNDP can turn into a relevant player next to the World Bank.

*UN funds and special programs*

Many UN agencies compete with each other for the resources provided by the donor governments for small projects and programs instead of integrating their capabilities into the UN country programs. So far, efforts to coordinate UN activities between the headquarters and the UN country teams have been inadequate because there has been more dialogue than coordination. Ultimately, UN activities can be more successfully linked with those of the Bretton Woods institutions via the “*Council for Global Development and Environment*” we propose. In addition to the need for appropriate coordination outlined above, it is perfectly reasonable to ask whether all UN special programs and funds are still serving a purpose.

*World Bank*

**Due to its unique position within the development system, the World Bank must be on guard not to be omnipresent and to spread itself too thin.**

Due to its unique position within the development system, the World Bank must be on guard not to be omnipresent and to spread itself too thin. It must increasingly learn to insert itself into the overall system of the multilateral development architecture, especially if reforms were to move towards a linkage between the UN system, the UN agencies, and the WTO. In order to strengthen World Bank legitimacy, quotas must also be revised to respect the principle of “equitable representation”.

*International Monetary Fund*

Commensurate with its monetary mandate, the IMF should be encouraged to collaborate more intensively with the World Bank and the United Nations in pursuing the Millennium Development Goals. With the Bank, the Fund should also be encouraged to continue efforts to engage civil society on major issues involving growth, stability, and welfare.

### *Regional development banks*

Instead of attempting to copy the broad spectrum of World Bank activities, the development banks should focus on three areas: first, their specific regional development programs, for which their expertise should exceed that of other development agencies (such as the enormous gaps in Latin America, ethnic strife and lack of development in Africa); second, construction of cross-border regional infrastructures (water, power, roads); third, development of adequate conceptual expertise to be better able to represent the developing regions and their governments within the Bretton Woods institutions or the WTO.

### *Global multilateral funds*

The sector- or problem-specific multilateral funds such as the Global Alliance on Vaccines and Immunization, the Global Fund to Fight Aids, Tuberculosis and Malaria or the Global Environmental Fund are effective institutions for the aggregation of financial resources that should be called upon to address major worldwide problems. Without integrating their operative activities into the established structures and existing programs of international development policy, however, they will only worsen the fragmentation of the multilateral development system. Wherever possible, already existing organizations should be strengthened instead of creating new agencies.

### *EU development policy*

According to the EU Treaty – and this is also true for the constitution now under consideration for ratification in individual countries – the EU Commission should only play a “complementary” role within European development policy. But this already complicates effective coordination and coherence within the EU. We are of the opinion that a more unified European development policy is needed. This applies in particular to Sub-Saharan Africa, one of the main regions of activity, where a more coherent development policy would be much more effective than the bilateralism of currently 25 EU states, which is determined by national interests. Individual EU countries should focus on specific countries and sectors, as agreed upon by the Council of Ministers, while the EU Commission should have a coordinating function and provide the linkage with the UN system. Should the EU, in cooperation with its member states, succeed in aggregating European development policy activities, it could become an actor on the World Bank’s level.

**Individual EU countries should focus on specific countries and sectors, while the Commission should have a coordinating function and provide the linkage with the UN system.**

### *Improvement of donor coordination of bilateral development policies*

Most ODA funds (approximately two-thirds) are still appropriated through bilateral procedures. A successful reform of the multilateral development architecture therefore is contingent on the modernization of bilateral development policies. The UN Secretariat has calculated that roughly \$7 billion per annum is used inefficiently due to inadequate coordination among the bi- and multilateral development policies of donor countries. In particular, the OECD Development Assistance Committee (DAC) is working on better coordination between donor country development efforts, but it has so far had limited success because of national interests.

The DAC, by compiling statistics and examining donor country development cooperation (Peer Reviews), is attempting to make a contribution to inducing such countries to respect the international agreements of Monterrey and the EU agreement of Barcelona, stipulating that at least 0.33% of gross national income is to be provided for ODA in 2006. At the same time, bi- and multilateral development cooperation is to become more efficient and more focused on poverty reduction, as agreed upon during the Rome conference of 2002. The DAC, together with the international financial institutions and the UN, has established a working group that is striving for greater development cooperation efficiency and building on “good practices” already developed by DAC members. Hence DAC activities have proven their value and become indispensable.

Equally important for improved coordination of bilateral aid are the new guidelines formulated within the overall framework of support for national strategies for poverty reduction (Poverty Reduction Strategy Paper, PRSP), which have replaced the classic and mainly “donor-controlled” structural adjustment measures of the 1980s and 1990s. Even if this process has not yet fully met its own expectations, its search process aims in the right direction. These are its main concepts:

- *Alignment* – i.e. integrating donor activities into the strategies of developing countries in order to increase their ownership and to prevent the development of parallel structures in developing societies;
- *Multilaterally adjusted programs within the PRSP process* – instead of the still fairly frequent coexistence of diverse and often competing individual donor programs;
- *Harmonization of donor implementation and evaluation practices* – in order to lower the enormous cooperation transaction costs to be borne by developing countries;
- *Increasing budget financing* – for reform-minded governments, in order to improve long-term ownership;
- *Coordination of donor activities on the ground* – to increasingly shift decision making from donor countries capitals to the developing nations.

Successful implementation of these agreements through international development policy would be tantamount to a quantum leap.

## 6.2 Local and Global Conditions for Development

**Global governance calls for an effective network of institutions at the local level, but also for local implementation of global decisions.**

Global governance calls for an effective network of institutions at the local level, but also for local implementation of global decisions. Agreements under international law such as the Rio Convention provide the framework for successful implementation, greater problem awareness, and the strengthening of political will. Implementation can only succeed, however, if national and local actors are considered to be the true driving forces behind this process. But the transition from the development and adoption of global action programs to their specific local implementation through regional and national action programs is still often unsatisfactory. This implementation gap, growing out of proportion with the burgeon-

ing number of global agreements, urgently requires greater attention on the part of the international community. The following should be noted: 1) The stakeholders of the multilateral organizations must assume more responsibility and political leadership. 2) The international actors must coordinate their actions not only in their headquarters but, as mentioned above, also on the ground in developing countries. 3) The governments and civil societies of the developing nations bear the major responsibility for the reform processes needed in their countries. International development policy must strengthen especially the reform-minded and capable actors in developing nations.

Negotiations on and implementation of the numerous action programs adopted by the international community have time and again stalled in the same places, with the developing countries emphasizing their need for financial resources and the responsibility of the industrialized nations to provide new and additional funds. The latter then point to the ongoing activities of development cooperation and the need for effective and efficient use of resources as well as the fact that what is called for is not only funding but also creation of appropriate overall conditions for development on the part of recipient countries, i.e. good governance. Often little progress is made with implementation because the points made are repetitive.

The ability to generate a collective political will is critical for the successful implementation of multilateral agreements: opportunities are provided by the major world conferences. But implementation should not be left to governments alone, only the participation of civil society can provide the necessary impetus for success.

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# 7 Conclusion – Creating the Political Will for Reform

As specific proposals are made, an important question arises as to whether the latter are practicable and feasible from a political perspective. At present, the outlook for serious reform is not especially propitious – but it could be.

**The likelihood of cooperation increases when the prevailing culture provides strong reinforcement: non-cooperators are simply frozen out.**

The likelihood of cooperation increases when the prevailing culture provides strong reinforcement: non-cooperators are simply frozen out. Why, for example, do people not steal the tea-bags provided in the office kitchen? The answer is that the shame of being caught acts as a deterrent. Only the boss has the power to escape punitive social sanction. Researchers call this ‘network closure.’

Cooperation is also very much a matter of self-interest. It is more likely to occur when all the actors, including the richest and most powerful, gain; and more likely, too, when defection entails significant costs. Villages successfully manage mountain meadows, irrigation systems, or communal forests: but only when everyone values the resource.

Finally, there are benefits when cooperation is broad and long-lasting as well as deep. It is easier to sustain community organizations if they perform more than one function: managing the grazing lands, for example, and also providing social insurance and access to credit. Again, the transaction costs are minimized. By the same token, the incentives to cooperate are greater if cooperation is likely to be long-lasting. One of the insights of game theory is that cooperation builds over time, with fewer defections.

**Cooperation seems to require a combination of an enabling social environment and a rational exercise of ruthless self-interest: a mutually reinforcing mix of culture and calculus.**

It seems as though cooperation requires a combination of an enabling social environment and a rational exercise of ruthless self-interest: a mutually reinforcing mix of culture and calculus. The great problem with international cooperation is that the mix is often missing.

A better approach would be to start with the easy tasks and build cooperation brick by brick, drawing on the lessons of collective action theory.

*Principles for Managing Global Governance Reforms:*

- First, keep the core group small. This might be challenging, given the fuss that is made about the exclusive nature of the Security Council and the regular complaints about who is in and out of the Green Room at WTO Ministerials. Most observers argue for greater participation and democratization, not less.
- Second, develop trust-building measures from the beginning. This can be done by providing opportunities for informal interaction as well as formal negotiation. In addition, large and complex agreements can be broken down into smaller, more manageable and sequential steps, which again build trust and thereby momentum.



- Third, use the same core group for as many issues as possible, in order to keep transaction costs down and benefit from what economists call economies of scale.
- Fourth, encourage network closure; make it awkward or embarrassing not to cooperate. Leaders themselves can do this, but civil society plays an important role as well.
- Fifth, choose the right issues. These are the ones where all the players, both big and small, have something to gain and something to lose. Genuine global public goods look like a particularly good bet: rules everyone needs, or new knowledge or investments that benefit all.
- Sixth, consider the use of positive incentives to effect reform. This is the territory of rational choice theory, but rational choice with a human face. If the scales don't quite balance, then add weights progressively until they do. Sometimes, the balancing can be done within a single negotiation. At other times, it may be more helpful to seek trade-offs against the whole range of bilateral and multilateral relationships.
- Seventh, and perhaps as a last resort, remember that collective action is often most successful when the costs of defection are high. More aid may be a carrot, less aid a less palatable but equally effective stick.
- Finally, set up appropriate institutions to manage these interactions and relationships. As in the natural world, where biology and instinct promote self-protection, it is understandable that trade, climate change, or disarmament negotiators act in their immediate, short term, self-interest. However, this situation can be improved with the right rules and the right procedures. That is why the WTO is more valuable than its critics allow: the problem is not with the instrument so much as with how it is used. Would it help to give ECOSOC more decision-making power?

**More aid may be a carrot, less aid a less palatable but equally effective stick.**

These eight principles can be applied to the question of what to do about the patchy, often poor, performance of the UN development agencies. Rich countries have looked at this highly political mess with despair and have largely retreated from wholesale reform. Instead, they have funded agencies they like, such as UNICEF, and have withdrawn or cut funding to those they don't, such as UNESCO or UNIDO. Even where rich countries have continued support for UN organizations, they have tended to selectively fund projects they like rather than fund the totality of budgets; in the process, they have undermined sensible management of budgets and programs.

A collective-action approach to this problem again requires measures to build trust and a shared vision. The Helsinki Process, led by the foreign ministers of Finland and Tanzania, is a forum of stakeholders from different constituencies that might achieve this. More immediately, however, some of the major players have the responsibility to think more strategically about how to change the incentive structure. In the frame here are the major funders of the UN, the US and the Japanese, but also the Scandinavians and other like-minded donors in Europe, including the UK. There may also be a role for the L-20, the group of leading nations set up under Canadian auspices.

However the leadership group is constituted, it should set out a vision of a unified and efficient UN development system, large enough and competent enough to provide a realistic alternative to the Bretton Woods system – and then should offer to fund it. As noted, the best way to do this would be to set up a single funding mechanism, run through the office of the Secretary-General, or a proxy like UNDP, with the muscle to rein in the diverse barons who currently rule the system.

International negotiators do not need lessons in how to manage international negotiations; what they do need is the occasional sharp reminder of why their negotiations matter and why they need to be bold.

# 8 List of Abbreviations

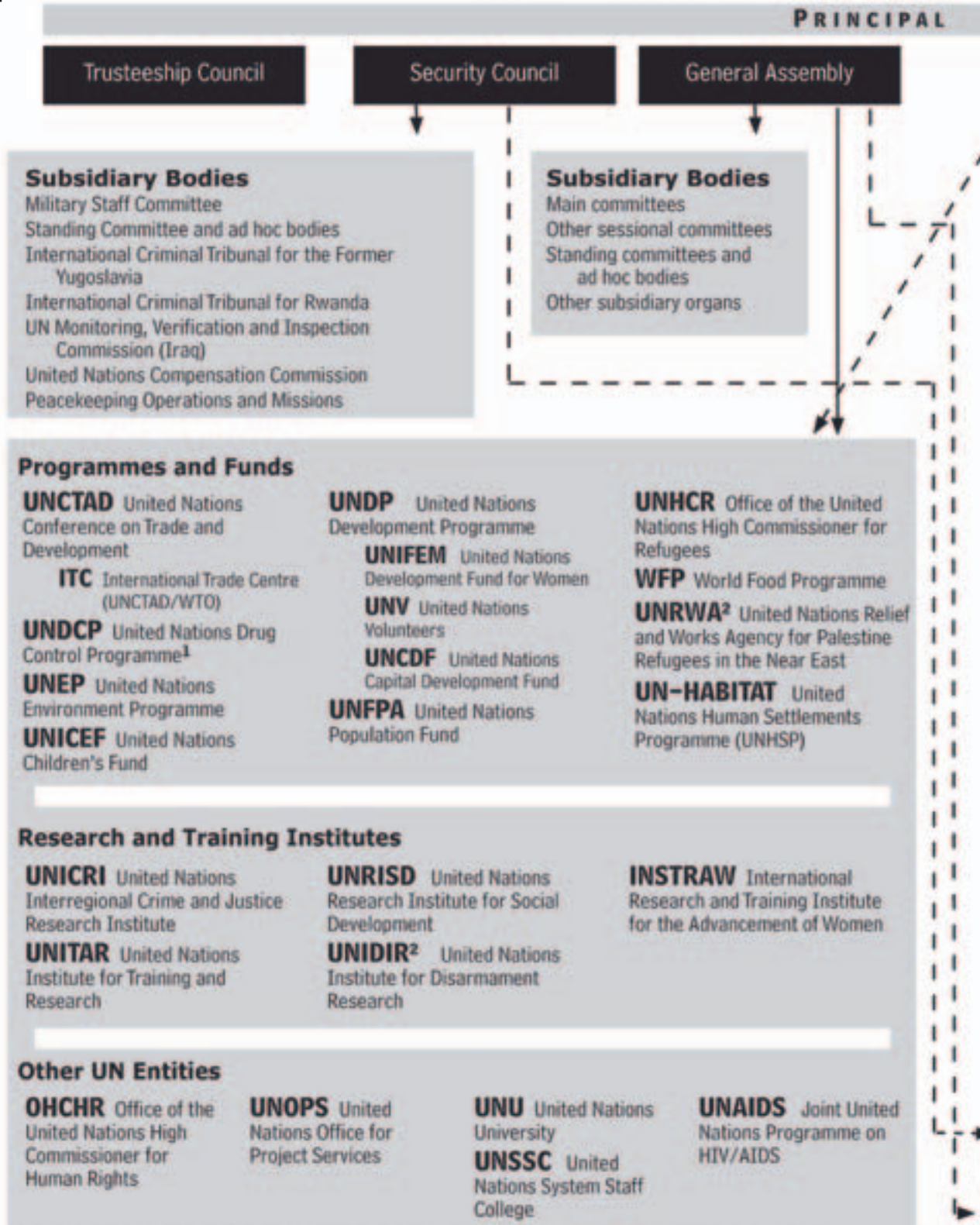
ACC	Administrative Committee on Coordination of the United Nations
BWI	Bretton Woods institution
CEB	Chief Executives Board of the United Nations
CGDE	Council for Global Development and Environment
DAC	Development Assistance Committee of the OECD
EBRD	European Bank for Reconstruction and Development
ECOSOC	Economic and Social Council of the United Nations
EU	European Union
FAO	Food and Agriculture Organisation of the United Nations
FDI	Financial Direct Investment
GEF	Global Environment Facility
IAEA	International Atomic Energy Agency
IFC	International Finance Corporation
IFI	International Financial Institution
IMF	International Monetary Fund
LDC	Least Developed Countries
MDB	Multilateral Development Bank
MDG	Millennium Development Goal
NATO	North Atlantic Treaty Organization
NGO	Non-Governmental Organization
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
PRSP	Poverty Reduction Strategy Paper
UN	United Nations
UNCDF	United Nations Capital Development Fund
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNESCO	United Nations Educational, Scientific, and Cultural Organisation
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organisation
UNRWA	United Nations Relief and Work Agency for Palestine Refugees in the Near East
WBGU	Wissenschaftlicher Beirat der Bundesregierung für Globale Umweltveränderungen (Scientific Advisory Council on Global Environmental Changes of the Government of the Federal Republic of Germany)
WFP	World Food Programme of the United Nations
WTO	World Trade Organization

# 9 Appendix



# The United

PRINCIPAL



**NOTES:** Solid lines from a Principal Organ indicate a direct reporting relationship; dashes indicate a non-subsidiary relationship. <sup>1</sup>The UN Drug Control Programme is part of the UN Office on Drugs and Crime. <sup>2</sup>UNRWA and UNIDIR report only to the GA. <sup>3</sup>The World Trade Organization and World Tourism Organization use the same acronym. <sup>4</sup>IAEA reports to the Security Council and the General Assembly (GA). <sup>5</sup>The CTBTO Prep.Com and OPCW report to the GA. <sup>6</sup>Specialized agencies are autonomous organizations working with the UN and each other through the coordinating machinery of the ECOSOC at the intergovernmental level, and through the Chief Executives Board for coordination (CEB) at the inter-secretariat level.

# Nations system

## ORGANS

Economic and  
Social Council

International Court  
of Justice

Secretariat

### Functional Commissions

Commissions on:  
Human Rights  
Narcotic Drugs  
Crime Prevention and Criminal  
Justice  
Science and Technology for  
Development  
Sustainable Development  
Status of Women  
Population and Development  
Commission for Social  
Development  
Statistical Commission

### Regional Commissions

Economic Commission for Africa  
(ECA)  
Economic Commission  
for Europe (ECE)  
Economic Commission for Latin  
America and the Caribbean  
(ECLAC)  
Economic and Social Commission  
for Asia and the Pacific (ESCAP)  
Economic and Social Commission  
for Western Asia (ESCWA)

### Other Bodies

Permanent Forum on Indigenous  
Issues (PFII)  
United Nations Forum on Forests  
Sessional and standing  
committees  
Expert, ad hoc and related bodies

### Related Organizations

**WTO<sup>3</sup>** World Trade  
Organization

**IAEA<sup>4</sup>** International Atomic  
Energy Agency

**CTBTO PREP.COM<sup>5</sup>**  
PrepCom for the  
Nuclear-Test-Ban-Treaty  
Organization

**OPCW<sup>5</sup>** Organization for the  
Prohibition of Chemical  
Weapons

### Specialized Agencies<sup>6</sup>

**ILO** International Labour  
Organization

**FAO** Food and Agriculture  
Organization of the  
United Nations

**UNESCO** United Nations  
Educational,  
Scientific and Cultural  
Organization

**WHO** World Health  
Organization

### WORLD BANK GROUP

**IBRD** International Bank for  
Reconstruction and  
Development

**IDA** International  
Development Association

**IFC** International Finance  
Corporation

**MIGA** Multilateral Investment  
Guarantee Agency

**ICSID** International Centre for  
Settlement of Investment  
Disputes

**IMF** International Monetary  
Fund

**ICAO** International Civil  
Aviation Organization

**IMO** International Maritime  
Organization

**ITU** International Tele-  
communication Union

**UPU** Universal Postal Union

**WMO** World Meteorological  
Organization

**WIPO** World Intellectual  
Property Organization

**IFAD** International Fund  
for Agricultural  
Development

**UNIDO** United Nations  
Industrial Development  
Organization

**WTO<sup>3</sup>** World Tourism  
Organization

### Departments and Offices

**OSG** Office of the Secretary-  
General

**OIOS** Office of Internal  
Oversight Services

**OLA** Office of Legal Affairs

**DPA** Department of Political  
Affairs

**DDA** Department for  
Disarmament Affairs

**DPKO** Department of Peace-  
keeping Operations

**OCHA** Office for the  
Coordination of  
Humanitarian Affairs

**DESA** Department of Economic  
and Social Affairs

**DGACM** Department for  
General Assembly  
and Conference  
Management

**DPI** Department of Public  
Information

**DM** Department of  
Management

**OHRLLS** Office of the High  
Representative for  
the Least Developed  
Countries, Landlocked  
Developing Countries  
and Small Island  
Developing States

**UNSECOORD**  
Office of the United  
Nations Security  
Coordinator

**UNODC** United Nations Office  
on Drugs and Crime

**UNOG** UN Office at Geneva

**UNOV** UN Office at Vienna

**UNON** UN Office at Nairobi

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