A political agenda for the Reform of Global Governance

A background policy paper

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Introduction

The increasing importance of the socio-economic dimension of globalization and the current insufficiency of institutional arrangements for global economic governance demonstrate the need for a new framework to address the attendant challenges. The UN conference on Financing for Development served to reinvigorate the policy debates on the governance deficit of the international economic, financial and trading systems. Moreover, the French President Chirac and the German Development Minister Wieczorek-Zeul endorsed in Monterrey the establishment of an Economic and Social Security Council within the UN system as a new international decision-making body for global economic issues. However, the reform proposals on Global Economic Governance were not developed further after the FfD Conference.

From the viewpoint of many experts, the original role of the UN in the normative and agenda setting arena should be strengthened on issues such as social and economic development, peace-building, security, justice, and the promotion of human rights. The failure of global governance institutions to avert the Iraqi crisis provides further proof of this critical need. In part, reform proposals seek to ensure that the legitimacy of the United Nations is recognized with respect to the coordination of global economic policy consistent with its normative framework, and to providing regulatory authority.

Against this background, the objective of this policy paper is to provide expertise for in-depth discussions on the nature of the global governance deficit, with a view to coming up with proposals for global governance reform in the context of the UN Financing for Development High Level Dialogue on October 29-30, 2003.

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Chapter I : Shortcomings of the current global governance system

Over the past decade, the most important developments in the global macroeconomic environment have been increasing liberalization of trade and of international financial markets, the growing dominance of transnational corporations (TNCs) through foreign direct investment, and the increasingly central role of the Bretton Woods Institutions (BWIs) and more recently the World Trade Organization (WTO), in ensuring that the macro-economic, structural and trade policies of developing and transition countries comply with the underlying paradigm. There are, however, glaring gaps in this global governance framework, dominated as it is by the BWIs, the WTO and the TNCs. It is prone to systemic crises with potentially devastating social costs, and it is failing to deliver robust economic growth with a fair and just distribution of that growth to developing nations, and to needy, excluded communities in rich and poor nations. It fails to acknowledge accountability to the body of social and environmental policy guidelines, norms and standards of the UN, which ought to be providing the tools necessary to redress the imbalances inherent in the current global governance arrangements.

The prevailing global governance paradigm asserts the primacy of deregulated, market-led growth. It facilitates capital accumulation without a fair distribution of the profits derived from production and trade, and ultimately serves the corporate interests of the rich industrialized countries. It is not surprising, then, that the governance structures and arrangements of the BWIs, the WTO, and norm-setting bodies such as the Financial Stability Forum and the Bank for International Settlements all reflect the dominance of the industrialized countries (especially the G-7).

The search for a different model of global governance is of critical importance, because the current model is not sustainable. The fault lines in the system are becoming increasingly evident. There is an explosive growth of international finance with an increasing gap between the volume traded on financial markets, most of which is highly speculative in nature, and the real world of productive investments which could be of benefit to national economies. Many economies have been and continue to be vulnerable to the resulting crises in their economic, financial and banking sectors. The Spring 2003 issue of the IMF's World Economic Outlook states that vulnerability to renewed economic crisis remains high in some Latin American countries and in Turkey. Unsustainable debt burdens continue to plague some emerging market economies reeling under the pressure of financial crisis, while the debt relief mechanisms put in place under the HIPC initiative for the poorer countries have proven inadequate to relieve countries of their debt and put them on a path to achieving the MDGs.

The BWIs-led pressure on countries to liberalize their capital accounts to facilitate financial market liberalization only serves to increase their vulnerability. Many aspects of the policy-based lending of the BWIs, hedged around with conditionalities, serve to undermine rather than enhance the growth prospects of developing countries, and to increase poverty. These include the pressure to privatize public services such as health and education, tight controls on public spending, policy-based lending for import-liberalization and the development of an export sector. These policies have led, in many cases, to the destruction of the productive base of local economies and to economic contraction. Argentina's GDP contracted by 11 % in 2002, while growth has been sluggish in much of Latin America and the Caribbean over the past few years.

Nowhere is the social fall out of these policies more evident than in labor markets which are being deregulated in the interests of economic globalization. Labor markets in many countries have witnessed a dramatic deterioration in employment growth. In a study published in January 2003, the ILO estimates that the number of unemployed worldwide grew by 20 million since the year 2000, reaching a total of 180 million. At the end of 2002, the number of working poor, or workers living on $1 a day or less, had resumed its upward trend, returning to the 1998 level of 550 million. (*ILO – Global Employment Trends-2003*)

The policies underlying the current model of economic globalization are by no means gender neutral. As men and women tend to work in different sectors of the economy, macroeconomic and trade policies have different effects on women and men. Women typically have jobs that are more vulnerable to economic shocks in times of crises. The majority of the world's poor are women and children, living in rural areas and earning their livelihood in the informal sector. Women in the formal wage economy tend to be concentrated in the lowest paying jobs where there are few labor or health protections and the greatest environmental and safety hazards. Many of these jobs are located in Export Processing Zones, where women are increasingly employed in textiles and electronics in exploitative and harrowing working conditions, without basic workers' rights provisions. The push for privatization of essential services, such as health, water and education, through the GATS is putting these "public goods" out of reach of many poor communities. This puts an additional burden on poor women who already must care for and sustain the family.

A much-touted breakthrough in the TRIPS exemption provisions on generic life-saving drugs such as for HIV-AIDS will offer, according to several analyses, no real relief to nations heavily affected by such illnesses. Regrettably, the development has not come before millions of people have died of HIV-AIDS owing to the stalling on agreement of the industrialized countries, under pressure from their pharmaceutical industry. Moreover, many recent WTO rulings are in contradiction to social and environmental principles. Human rights enforcement bodies have also called attention to actual and potential contradictions between WTO Agreements and human rights norms.

The so-called Doha development round has failed to advance the cause of development in any significant way, as issues of market access, special and differential treatment, anti-dumping measures and the phasing out of agricultural subsidies continue to defy efforts at reaching solutions.

With regard to the corporate sector, the tremendous power of the large transnational corporations (TNCs), their capacity to influence the economic policies of their home (mainly G-7) countries, and by extension the global governance institutions, are pressing issues for global economic governance, not least because they are driven primarily by the individual profit motive rather than public interest or development concerns. Their ability to escape the jurisdiction of countries in which they invest in matters such as taxation, and to influence also these countries' policies in their own interest give equal cause for concern. The establishment of an adequate regulatory framework to enforce corporate accountability, good ethical social, labor and environmental practices among TNCs and the private sector in general, these become important issues for the global governance agenda.

Chapter II The Bretton Woods Institutions

As influential global players, the World Bank and the IMF should make provision for effective participation of developing countries in decision-making and norm–setting. Moreover, their operations should be guided by the principles of transparency and accountability. Currently developing countries hold 38% of voting power at the IMF and 39% in the World Bank, whereas the industrial nations control 62% and 61% of the votes. The Monterrey Consensus called explicitly for "broadening and strengthening of participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting." It specifically called upon the World Bank and the IMF to "continue to enhance participation of all developing countries and countries with economies in transition in their decision-making." However, the political agenda of the governing boards regarding the implementation of the Monterrey commitments so far has only focused on minor changes in the status quo of the International Financial Institutions (IFIs).

Voting Structure

The voting power in the IFIs is based on quotas, and basic votes that were given in an equal amount to all countries. Basic votes, by which voice in decision-making is given in particular to smaller countries has significantly lost importance within the IFIs decision-making. Because the number of basic votes has not been changed with successive quota increases, the ratio of basic votes to total votes has declined sharply. Despite a growing membership of developing countries, the proportion represented by basic votes in the total decreased (from 11.3% to 2.1 %), which raised the relative voting power of larger countries. This has substantially shifted the balance away from the compromise agreement contained in the Articles of Agreement that was designed to protect the participation of smaller countries.

The original quota formula at the foundation of the IFIs responded to no economic logic, and was designed to attain a political objective. Given this historical fact, it is remarkable that—with only some adjustments in the weights and definition of the main variables of the quota formula—the BWIs continue to use the original formula for determining members' quotas today.

Quotas are important not just because they confer decision-making power, but also because they determine access to financing. For instance at the IMF member countries can borrow only up to a specific amount of 300 percent of their quotas under regular Fund facilities. Thus the small quotas of developing countries limit both their share of voting power and their access to IMF resources.

Moreover, over the years the BWIs have turned into development institutions and are no longer purely monetary or lending corporations. The fact that for some twenty five years the BWIs have lent only to developing countries has come to mean that the creditor countries of the North try to lend as little as possible and therefore favor a hardening of conditionality. Thus, the objectivity and impartiality of the Executive Board of the Fund (assumed by the Articles of Agreement) has been eroded to a significant extent.

Composition of the Executive Board of IMF and World Bank

The Board of the IMF and World Bank are made up of 24 Executive Directors (EDs), who represent 184 member countries. However, 8 EDs represent one country each, while, for instance, more than 40 Sub-Saharan African countries are represented by 2 EDs. Moreover, in mixed constituencies (made up of industrial and developing country members) it is the industrial country ED who represents the whole constituency, which accounts for the fact that currently, among 24 EDs, more than half of them are from industrial countries. This means an additional source of imbalance to the detriment of the developing countries. In fact, countries that have a permanent ED at the Board are far more able to effectively shape policy discussions than countries that do not.

A look at gender representation also reveals some glaring imbalances. It should be noted that in the World Bank's 24-member Executive Board there is only one woman, whereas the IMF's Executive Board has only two women. Addressing these geographical and gender imbalances is critical to achieving democratic global governance.

Transparency

The lack of transparency regarding Board discussions and operations continues to make it difficult to hold the Executive Directors (EDs) accountable for the positions they take in the governing bodies of the IFIs. More transparency of the operations is important because it would allow external stakeholders to see what issues were discussed and who were involved.

Moreover, the operation of consensus decision-making in the Executive Boards of both the Fund and the Bank does not suppress the underlying power of voting allocations. The consensus agreement brokering process in the IFIs does not ensure the requirement for unanimous agreement among members where any one party can veto and object and where votes are recorded and made open to inspection.[1] The lack of a formal and open

[1] Woods 2000,The Challenge of Good Governabce for the IMF and the World Bank Themselves: 15.

record of deliberations and votes makes it impossible for the EDs ultimate constituencies to judge whether or not their representatives supported or resisted a particular policy or program of the BWIs. To enhance the transparency of the Executive Board's decision-making process, countries should be required to reveal their positions taken during Board discussions, and voting rules should be changed to a formal casting of votes. The benefits of a formal voting process is that it also allows vote splitting. For example, instead of constituencies voting as a block, each individual country would cast a vote.[2] This procedure is essential in order to be able to publicize countries' voting decisions and to hold them accountable to their constituencies.

<u>Selection of Leadership and Staff at IMF and World Bank</u>

Whereas formally it is the Executive Board of the IMF and World Bank that appoints the head of the institution, there has always been a tacit agreement by which the President of the World Bank is a US citizen (appointed by the US), while the Managing Director of the Fund is European (appointed by the Europeans). No effort is made to ensure that the leaders of such influential organizations would be chosen on the basis of a transparent and open process aimed at achieving political representation or technical excellence.

In terms of the senior staff at the BWIs, the lack of diversity in economic approaches is also a problem. As some analysts have pointed out, the Fund and the Bank are overwhelmingly Anglo-Saxon in their approach to economics.[3] According to one survey, 90 % of IMF professionals with PhDs received them from US or Canadian universities. With regard to the Bank, a 1991 survey of staff in the Policy, Research and External Affairs Departments, showed that some 80 % had trained in economic and finance at institutions in the United States and the UK.

Moreover, there is a longstanding predominance of nationals from industrial countries among management and senior officers.[4] The homogeneity in background of the leadership and senior officers undoubtedly has a strong impact on the adoption of certain dogmas and on the institutional culture of the staff as a whole.

<u>Recommendations:</u>

1. Voting power within the BWIs should be reallocated so as to ensure that the institutions represent the interests of the whole membership, and that the block of the borrowers and the block of the creditor countries have an equal allocation of votes. The reallocation should ensure that the proportion of basic to total votes is elevated to the original one, and that the ratio is kept constant in new quota increases.

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[2] Wood 2001, Structural Adjustment for the IMF :18.
[3] Woods 2001, Making the IMF and the World Bank more accountable: 18.
[4] Buira 2002, A New Voting Structure for the IMF: 26.

2. The constituencies represented by each ED should be reshaped to ensure a more even distribution of countries among EDs. A ceiling of no more than ten countries per constituency should be established.

3. Board members should express their positions with formal votes. Agendas, transcripts and minutes of World Bank and IMF Board meetings should be made publicly available to parliamentarians, civil society groups, academics, etc. except when strictly required to avoid harm that could result from such disclosure.

4. The heads of the BWIs should be selected through a transparent process that involves all member countries and the candidates should be assessed on merit, regardless of their nationality. Geographical and gender diversity in top positions should be widely encouraged, and the IFIs should further incorporate local knowledge from developing countries into their programs and projects.

Chapter III The World Trade Organization

The rapid growth in the range and reach of global trade and investment agreements has sparked burgeoning concern with regard to the challenge they pose to democracy, equity, human rights, and those as basic as the right to life and the right to health. These are reflected in the new and evolving accords that are negotiated within the WTO. At the Cancun WTO Ministerial (September, 2003), as at the Seattle Ministerial (1999) it became clear that these concerns are shared by many country representatives as well as by world-wide networks of civil society organizations (CSOs). Given the failure of the WTOs rules and procedures both formal and informal, to produce a consensual framework for advancing global trade accords, it is clear that the time for reform is overdue. Achieving a fair and just multilateral trading system requires an open, transparent discussion on governance reforms within the WTO. In this regard, civil society organizations have raised a number of concerns.

The policy framework of the WTO

Firstly, with respect to the trade and investment-led growth model, it should be said that CSOs are not anti-trade or anti-investment per se, but are raising probing questions about the extent to which a 'one size fits all' approach (encouraging foreign investment, de-regulation and export-led growth over domestically-set priorities such as domestic savings, ownership and democratic regulation) has become an intellectual and policy "monoculture" in global institutions such as the WTO. CSOs are emphasizing the importance of special and differential treatment, diversity and democracy as important elements of a strategy to overcome the shortcomings of the current multilateral trade regime.

Secondly, an important area of concern is that trade ministries through the WTO are attempting to assert a legal priority for trade and investment agreements over all others. They force environmental, labor and human rights agreements to so-called "necessity" tests or tests of being the least harmful to trade and investment accords. In other words, while the enforceability of trade and investment accords has been upheld through the WTO, agreements on enforcement of environmental, labor and human rights agreements have lagged far behind, leading to a chronic imbalance of priorities.

Thirdly, the WTO, with complementary actions by the World Bank and the IMF, encourages and frequently coerces small and weaker governments to adopt policies leading to progressive liberalization, privatization and special protections for foreign investors. This leads to the institutionalization by the WTO and IFIs of a for-profit model of service delivery and the privatization of key public goods, not least of which are water and water services. This strategy conflicts with the objectives of access, equity and inclusive provision of public goods.

Fourthly, the WTO and agreements associated with it have become an overarching policy framework causing a democratic deficit, limiting extensively what citizens can decide through their own governments and enforcing essentially a "one-size fits all" model of economic management.

Internal governance deficits

Even though the formal structures of the WTO have a number of positive attributes (including the principle of consensus decision-making involving all members, representation of all members on the governing body and consensus requirements for amendments to the governing articles) the effective reality often belies the attractive formalities. It should be mentioned, for example, that more than two dozen smaller developing countries are unable to maintain representation on an ongoing basis in Geneva. Furthermore, the decision-making processes at the WTO are extremely informal yet illusive, since agendas are dominated by a "quad" of four powerful nations and by mini-ministerial meetings involving only two dozen of member countries, leaving many members marginalized.

Another area of concern is the lack of transparency and accountability of the WTO to external stakeholders. Much of the agenda-setting takes place unrecorded in private "Green Room" meetings behind closed doors, rarely with public notice, and on the basis of invitations from the Director-General. Moreover, experts on the WTO argue that procedural rules are often broken and are both open to manipulation and difficult for smaller or weaker countries to navigate. To these factors, participants and observers add the application of bilateral pressure from donor and large-market countries on developing nations.[5]

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[5] Kovach, Hetty, Caroline Nelligan and Simon Burall. Power without accountability? London, The One World Trust, 2002/2003 owt@parliament.uk , Kwa, Aileen. Power Politics in the WTO. Bangkok, Focus on the Global South. January, 2003 www.focusweb.org, Civil Society Call to the WTO Members for the 5th WTO Ministerial in Cancun. July, 2003 www.focusweb.org/civil-society-call/

As an overall response to challenge the current policy priorities and to tackle the internal governance deficit of the WTO, CSOs are proposing, the following key elements of reform:

1. Normative Requirements

The legal priority of human rights, gender equality, labor and environmental accords must be recognized, and trade and investment agreements made compatible with them. This implies a preliminary process, prior to negotiations, involving an assessment of potential impacts on human rights, women's rights, labor and environmental agreements. These impact assessments should be made at the multilateral and at the national level in an open, transparent and participatory fashion. They should adopt a multi-sectoral approach, involving representatives of all sectors likely to be affected by the trade and investment agreements under discussion. Further, those areas of policy that are critical to sustainable development should clearly be "carved out" of the WTO jurisdiction: for example, an international agreement on cultural diversity, public health, and the provision of essential public goods.

2. Structural Reform

The WTO should cease to be a house apart and be brought within the UN family, reporting through the ECOSOC or a new Economic and Social Security Council. This would also imply that at the national level, international trade and investment policy should be evaluated and reviewed within an inter-departmental or cross-governmental frame, in light of social, environmental, human and labor rights priorities, the policies of national governments and the concerns of their parliaments.

3. Internal Governance Proposals

Non-Governmental Organizations and social movements have persistently supported reform suggestions from country representatives, and proposed a number of conditions for democratic decision-making within the WTO. These include: an end to the green room and mini-ministerials, universal approval of agendas and draft texts for consideration, member-elected chairs and facilitators, committee of the whole as the forum for negotiations, inclusive and transparent meetings with six hours advance notice.[6] Other important reform initiatives should include: provision through a trust fund of funding for capacity building and for ensuring a permanent presence and participation of delegations of smaller countries in Geneva and throughout the negotiations. Furthermore, the development of a regularized clear and transparent approach to the participation of civil society in something akin to the consultative status enjoyed in relationship with the UN ECOSOC should be undertaken. The Cancun Ministerial and its failure demonstrated that the old manner of doing things has run its course, and that it is clearly time for a new approach.

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[6] Civil Society Call to the WTO Members for the 5th WTO Ministerial in Cancun. July, 2003 www.focusweb.org/civil-society-call/

Recommendations:

1. Current opportunities for interaction between the UN system, the BWIs and the WTO, including the participation of NGOs, trade unions and other stakeholders should be reinforced and extended, including the model of hearings and roundtables initiated in the FFD follow-up process by the ECOSOC and the GA.

2. The United Nations, including the Office of the High Commissioner for Human Rights and the International Labour Organization should develop a process for ensuring the recognition and legal primacy of human and labor rights agreements and ensuring the coherence of trade and investment agreements with human and labor rights provisions.

3. Steps should be taken by national governments to bring greater coherence to the international system by integrating the WTO within the United Nations reporting to the ECOSOC or a similar body charged with coordinating of economic, environmental and social policy.

Chapter IV Making the Case for a Strengthened United Nations

In light of the foregoing analysis of the severe gaps in current global governance arrangements the need for strengthening the UN role becomes a clear imperative.

What global governance implies is not a proliferation of the existing tangle of organisations and rules, but rather improved coordination among existing bodies. This requires improved working relationships between the multitude of organisations and programs concerned with development, and the strengthening of their mandate and their operational capacity through provision of the funding necessary to carry out their critical tasks in face of pressing world problems. The aims of global governance are democratisation of international organisations and a more effectively coordinated international system that delivers on economic and social justice, and well-being for all. Global governance must also address the institutional gaps in current policies, such as finding institutional arrangements for dealing with the provision of global public goods.

The UN Charter was conceived as a normative model to ensure that international policies, notably those in the monetary, financial and trade sectors would be coherent, and thereby provide solutions to international problems of an economic, social, cultural or humanitarian character, while promoting respect for human rights for all.[7] To that end, the model relied on two basic principles: specialization and coordination. According to the principle of specialization, the system envisioned a set of global institutions—specialized agencies -- each of them with a mandate to deal with a specific and limited set of issues. Within this scheme, the World Bank and the International Monetary Fund were

[7] UN Charter, Art. 1.3

specialized agencies of the UN. [8] A similar status was foreseen for the International Trade Organization (ITO), an agency that was supposed to be established shortly thereafter and that would be in charge of trade cooperation. Coordination of UN activities concerned with economic, social, and ecological affairs was entrusted to the Economic and Social Council (ECOSOC), one of the UN system's main organs, acting under the authority of the General Assembly.

The UN went further to codify and provide greater content to norms and standards in areas such as development, human and labor rights, social and environmental policy, through various inter-governmental processes over the years. The 1948 Universal Declaration of Human Rights would see its principles further defined in Conventions on civil and political rights, economic, social and cultural rights, women's rights, and the rights of the child. Specialized agencies also played a role in standard-setting in their areas of competence. Notably, the International Labour Organisation has established a body of Conventions to regulate the world of work, and has codified a set of indivisible core labor standards in the 1998 ILO Declaration on Fundamental Principles and Rights at Work.

During the 1990s, UN Conferences became important vehicles for agreement among the broad community of Nations with respect to standards and goals requiring international cooperation. The conferences on environment and development, population, social development, gender, and the rights of the child, are all examples of this, leading to agreement on what is broadly referred to as the internationally agreed development goals. The Millennium Development Goals, endorsed in the Millennium Declaration are a "distillation" of monitorable, quantifiable goals, extracted from the outcomes of those conferences.

However, as far as economic policies are concerned, the UN never really got to play its coordinating role. The first reason for this must be sought in the reluctance of the industrial countries to strip the Bretton Woods institutions – in which their capital-share-weighted votes assure them pre-eminence – of some of their powers and to transfer them to ECOSOC. This failure to invest the UN with coordinating authority became even more pronounced as a large number of new independent countries joined the UN in the 1960s and 70s, thereby increasing the weight of developing countries under the one-country-one-vote system prevailing in the UN. The leading industrialized countries sought to exercise decisive influence elsewhere, often side-stepping the UN. These underlying power dynamics in the system of global governance found some expression in the lax language of the Relationship Agreements that linked the Bretton Woods institutions to the UN, which ensured that the World Bank and the IMF would have, vis-à-vis the UN, a greater degree of independence than other specialized agencies. For reasons that exceed the scope of this paper, what should have been the specialized agency in charge of coordinating trade relations, the International Trade Organization, was simply never established.

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[8] See Hans Singer, Rethinking Bretton Woods: from a historical perspective; In Promoting Development-Effective Global Institutions for the 21st century (Griesgraber/ Gunter ed.)

The UN's weakened role in the area of international economic policy also served to undermine its ability to provide effective normative leadership even in the non-economic areas. In fact, starting in the early 1980s, and facilitated by the eruption of the debt crisis, the Bretton Woods Institutions dramatically increased the reach of their interventions into the economies of borrowing countries, through policy-based lending. The result was that they also increased their degree of influence on non-economic areas impacted by those interventions. Areas like security, governance, environment, social, health and education sectors, labour markets and gender policies all became increasingly under their direct purview.

The establishment of the WTO in 1995 as the missing third pillar to complement the Bretton Woods Institutions, would intensify the process of consolidation of decision-making on economic, financial and trade matters away from the UN and its standard setting-setting role on human and trade union rights and social policy. Two closely connected facts are important to note in this regard. First, the WTO was a new institution, endowed with strong enforcement powers, that came to replace the old GATT Secretariat. Thus, it offered a solid counterpart that could interact with the World Bank and the IMF. Second, alongside the agreement establishing the WTO, WTO member governments issued the Declaration on the Contribution of the WTO to Achieving Greater Coherence in Global Economic Policy-Making, which basically called for greater cooperation and coherence among the WTO, the World Bank and the IMF, with no mention of the UN.

The impact of these two elements on the capacity of the UN to exercise its role as the leading institution for achieving coherence cannot be underestimated, and was clearly a calculated move of the powerful countries. As stated by the government of Canada: "Establishing a Multilateral Trade Organization within the existing GATT system will enhance the status of the GATT by giving it a legal personality to deal with other organizations while, at the same time, preventing the emergence of a trade organization within the UN system."[9]

In the subsequent years, building upon the Coherence Declaration, the World Bank and the IMF signed "coherence" agreements and intensified their efforts towards achieving "policy coherence" with the WTO. Regional trade agreements and development banks have followed suit, and are orchestrating similar efforts. The signing of these "coherence agreements" marks an important shift for the IMF and the World Bank. Although the influence of these institutions on the trade policy of their borrowing members can be traced back to the beginning of policy-based lending, the agreements formalized the pursuit of trade liberalization under the WTO framework as a core part of their mandate. In this connection and giving further reason for concern, are proposals like the one floated by the WTO Secretariat last May to identify an "institutional vehicle within the

[9] Non-paper by the Government of Canada from December 14, 1992.

WTO for consulting with the IMF and the World Bank on priority areas for cooperation."[10]

Given the status of the WTO as a forum for the continued negotiation of rules of a legal nature, it may be said that the basis for the emergence of an alternative pole for coherence outside the realm of the human and social values of the UN Charter now seems to be clearly in place.

However, several proposals have sought to engineer an alternative structure for international economic institutions that would address this problem. For example, during the 1990s Commission on Global Governance[11] suggested the establishment of an Economic and Social Security Council (ESSC) within the UN, a proposal that is once again receiving increasing attention. The ESSC would be a coordinating forum at high level, with the political legitimacy for discussion of the central issues of global political economy. The increased attention being paid to the proposal comes from a recognition that existing institutions are inadequate to address in a decisive way the most pressing problems of global governance, and that exclusive, limited membership bodies such as the G7/8 lack the legitimacy to take on the attendant challenges.[12] This paper contends that the time has come to give serious consideration once again to the proposal for the establishment of an ESSC.

Chapter V Towards greater coherence

An overarching theme of the UN Financing for Development (FFD) conference and the resulting Monterrey Consensus was the need to enhance the coherence and consistency of the international monetary, financial and trading systems, to ensure that they support the internationally agreed development goals.[13] Thus, the FFD follow-up process has been effectively empowered to propose systemic reforms to ensure that multilateral financial, trade and monetary rules work together to achieve the internationally agreed development goals.

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[10] WTO Secretariat "Coherence in Global Economic Policymaking and Cooperation between the WTO, the IMF and the World Bank", WT/TF/COH/S/7, 28 April 2003" Furthermore, the proposal was justified upon the alleged "absence of a forum at the international level for regular contacts between trade officials and their counterparts in finance and development ministries."

[11] See Report of the Commission on Global Governance (1995)

[12] France invited 12 heads of states of developing countries to meet with the G8 leaders at the occasion of the **G8 Summit at Evian** end of May: Algeria, Egypt, Nigeria, Senegal, South Africa (all of them NEPAD countries), then India, Saudi Arabia, Brazil, Mexico, Malaysia, Morocco and China. Also the directors of IMF, World Bank, WTO and the UN Secretary General participated. NGOs criticised this initiative as there is no representation nor rotation system. They miss transparency and accountability. NGOs expressed also severe concerns, if this process would lead to an empowerment of the G8 and might be used to legitimise the G8 Summits as a global institution and to the creation of parallel structures outside the UN.

[13] These goals include not only those contained in the Millennium Declaration, but also the agreed outcomes of the past decade's UN Conferences on gender, social development, environment, and so forth.

As shown in the previous chapter, coherence is not a new concept in the arena of international relations, as the original UN model provided, in theory, for the coherent design of policies towards the achievement of internationally agreed goals. Although the model has never worked the way it was originally envisioned, its internal logic remains compelling and unquestioned.

The 2002 Financing for Development (FFD) Conference and its follow-up process provided the framework for the implementation of concrete mechanisms that could enhance coherence of BWIs and WTO activities with UN policies and normative standards. The Conference was the result of an agreement whereby, for the first time in the history of UN processes, the BWIs and the WTO were active players. Its call for coherence attests to the recognized and continuing need for such an approach, in face of the challenges of managing an increasingly globalized economy.

With its emphasis on the achievement of coherence and consistency among trade, financial and monetary policies to support development, the Conference sought to reframe the debate on coherence in a way that would contemplate the necessary role of the UN as the guardian of fundamental human and social standards and values. The FfD follow-up process is therefore strategically positioned at the heart of the global governance policy debate, and should become the locus of the search for effective and enduring solutions to the challenges of global governance.

Essential to the success of a system of democratic global governance is institutionalizing the participation of CSOs in the policy-making processes of the multilateral institutions and the UN. Consultative mechanisms for broad-based participation should be established, making use of best practices from past intergovernmental processes, such as interactive round-tables, civil society hearings and dialogues with governments, and multi-stakeholder dialogues. Of particular interest as a model are the multi-stakeholder dialogues adopted by the Johannesburg environmental summit (September 2002), with their concept of major groups, including NGOs, trade unions, women, indigenous groups, local authorities, academia and the business sector.

Recommendations for UN Reform and Greater Coherence:

The arguments presented in this paper provide a convincing case for the strengthening of the UN institutions, the promotion of its normative instruments, and the clarification of the linkages with other major institutions in the global governance field. Of equal importance is the question of arriving at suitable modalities to allow for the effective participation of CSOs in UN intergovernmental processes. What is needed is a strategic long-term vision for making the UN the locus of the high-level summits on key issues facing the global community, a function that the G-8 now attempts to fulfil with limited, ad hoc, non-democratic participation from selected third countries. It is necessary, however, to envisage practical solutions over the short and medium term, and to use these as building blocks towards the realization of the broader strategic vision of democratic global governance.

1. Over the short term, efforts within the UN to upgrade and reform the ECOSOC should be strongly supported. In-depth discussions and decision-making are difficult to achieve in such a large body as currently constituted, consisting of 54 members. In order for the Council to perform its functions more effectively and provide for dynamic, interactive dialogue – particularly among high-level governmental officials – on the most crucial international issues related to global economic governance, it would need to be streamlined, and its working methods improved.

2. With the aim of giving clear political legitimacy and direction to its work, the ECOSOC should appoint, from its membership, an Executive or Steering Committee comprising three or four countries from each geographical region. The Committee would assist the Council in all matters pertaining to policy coherence, and in particular, the follow-up to the Monterrey Conference, including the preparations for the annual spring ECOSOC high-level dialogue with the Bretton Woods Institutions and the WTO. An important function of the Committee would be to engage, from the United Nations side, the World Bank, the IMF and WTO at the intergovernmental or political level, in a dialogue on global political, economic and social issues.[14]

3. Full support should be given to the proposal made by the Secretary General in his Report to the General Assembly (2003; para 185), for the setting up of study groups. These should take the form of thematic Expert Working Groups that will allow for adequate participation by a wide range of stakeholders, including governments, multilateral institutions, the UN system, civil society, the business sector, and independent academic experts. A task of the proposed Executive Committee should be to coordinate the composition of these expert groups, and develop a mechanism that will guarantee effective working arrangements between the groups and ECOSOC.

4. The expert groups will be charged with addressing concrete proposals coming out of the FfD Conference and its follow-up process, and exploring how the agreements and commitments reached in Monterrey could be effectively implemented. They should carry out research on core substantive policy issues of the FfD agenda, and report back to the ECOSOC, with specific recommendations. The policy papers developed by the expert groups should be disseminated to governments, international organizations and the public at large.[15] **The involvement of civil society organizations in this process will help to enhance the ongoing policy work of the UN.**

5. It would then be necessary for the Council to meet more frequently, and deal with the economic and social policy issues referred to it by the expert groups, with a

[14] UN SG Report, para 181-182.
[15] UN SG Report, para 184

view to decision-making and effective follow-up. Member States should commit to making better and more effective use of the Council as a forum for dialogue, especially regarding issues of policy coherence and coordination. This should help obviate the tendency for states to "gravitate" towards more limited-membership, ad-hoc bodies and groups that normally fall outside the purview of the United Nations.[16]

6. The Annual high-level meetings of ECOSOC with the Bretton Woods Institutions and the WTO should then become the major forum for ensuring the consistency and coherence of the monetary, financial and trading systems in support of development.[17] Coordination and coherence on global governance issues will be further enhanced by the establishment of substantive engagement with the other specialized agencies in the context of the Annual high-level meetings : UNCTAD, ILO, UNDP, UNIFEM and through multi-stakeholder processes involving civil society and the business sector.

7. Over the medium-term, the proposal to establish a permanent global Economic and Social Security Council within the structure of the UN should be vigorously pursued. This would involve changing the Charter, but this should be entirely feasible. One possible scenario that has been suggested is that the Council could have a limited number of seats – e.g. 25 – in a well balanced rotation system, whereby no seat would be permanent or carry veto power. It would provide a long-term strategic policy framework to promote development, secure consistency in the policy goals of the major international organizations, and promote consensus-building among governments on possible solutions to issues of global economic and social governance.

8. Over the longer term, the General Committee of the General Assembly which is hardly functional at the present time, could be re-activated to become an annual summit-level decision-making body on global economic and social governance. Activating the General Committee in this way does not involve a change in the UN Charter. The President of the General Assembly could simply invite member states of the General Committee at the appropriate level, ministerial or Heads of State, to attend a meeting at the beginning of the Assembly session. The General Committee is regionally representative, each of the permanent five members of the Security Council is a member, and it has only 28 members. It is proposed to make the President of the ECOSOC a member of the Committee, making it a G-29. It is therefore small enough to hold in-depth discussions, and to have effective decision-making capacity. Such a meeting of the GA General Committee would have the capacity to be effective and representative, without the need to change the UN Charter or to operate outside of it.

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[16] See UNSG Report para 171

[17] See UN Secretary General Report on Implementation of Financing for Development, 5 August 2003, paras 170, 179.

9. The Relationship Agreements that currently link the World Bank and the IMF with the UN should be renegotiated , and a similar Relationship Agreement to link the WTO and the UN should be created. These agreements should: a) clarify the responsibilities of the IMF, World Bank and WTO to the UN, and b) enhance the ability of the UN to ensure that international financial and trade institutions fully respect the jurisdiction of other agencies, funds and bodies, including those with non-economic mandates.

10. Within the UN frame work, a forum for resolution of jurisdictional disputes should be established. Indeed, given the primacy of social development objectives for the global community as outlined in the UN Charter, a hierarchy of international social policies, norms, standards and laws should be established as an accountability framework within which global policy-making should operate. Policies in the economic, financial, trade and investment fields should be developed in accordance with the precautionary principle, and the consistency principle. That is, they must do no harm to the set of principles and standards embodied in the international human and labor rights framework and the UN Internationally agreed development goals.[18] Further, they should not undermine these principles but rather seek explicitly to promote them.

11. The United Nations should be recognized as the custodian of the body of social instruments under its Charter, and as the organization within the global governance framework charged with ensuring compliance with them. The United Nations should use its convening authority to bring the key global governance actors together to review issues of coordination in the application of the body of social instruments, and in ensuring compatibility of economic, financial and trade policy with them. To this end, the UN should make use of its strengthened framework via ECOSOC over the short-term, and later the ESSC and the G-29, to build up an effective system of global economic and social governance, operating according to the principles of transparency, accountability and democratic participation, including the participation of representatives of civil society organizations.

12. The time has come to seriously consider proposals that have been put forward with the aim of providing consultative rights for NGOs within the GA. These should be modeled on the consultative rights and arrangements existing at the level of ECOSOC through ECOSOC Resolution 1996/31. The consultative rights accorded to non-governmental organizations in ECOSOC should be thus extended to the General Assembly, allowing NGOs to play a critical role as advocates for the strengthening of the social dimensions of global governance.

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[18] This set of principles can be operationalized as those contained in : The United Nations Charter, the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, the ILO Declaration on Fundamental Principles and Rights at Work, the Convention on the Elimination of All Forms of Discrimination Against Women, the Convention on the Rights of the Child; and the Millennium Declaration

Appendix

FRIEDRICH EBERT FOUNDATION
and
IFG Global Governance Working Group

Expert meeting on the theme:

A political agenda for the Reform of Global Governance

Date: July 21-22, 2003
Friedrich Ebert Foundation, New York Office
823 UN Plaza, Suite 711 (entrance at 46th Street and 1st Avenue)

Agenda

Monday, July 21, 2003

9.30 a.m. – 11.00 a.m. 1st Morning Panel
A changed world- Growing Economic Interdependence but insufficient institutional arrangements for global economic governance

- Emerging gaps or problem areas: Global macroeconomic management, International Financial Architecture (Capital Flows and FDI), Transnational Corporations (Corporate Accountability) Cross-border movements of people (Rights of Migrant Workers)
- The logic (original mandates, institutional developments, legitimacy etc.) of inter-national organizations: United Nations, IMF, World Bank, WTO, The role of G7/ 8

11.30 a.m. – 1.00 p.m.   2nd Morning Panel

New Rules for the World Economy through a Global Council or an Economic and Social Security Council (ESSC) within the UN system

- Rationale, Functions, Composition and Procedures for a Global Council or ESSC
- Restoring the original role of the UN in the normative and agenda-setting arena (including human and trade union rights and gender equality)
- New institutional arrangements between the UN and other economic bodies (IMF, WB, WTO, G7/8)

Luncheon with Keynote Address
by Oscar de Rojas, Head, UN Financing for Development Office

2.00 p.m. – 3.30 p.m.   1st Afternoon Panel

G7/8 Proposal for Global Governance Reform - The Camdessus initiative for enhanced participation of developing countries

- Functions, Composition and Procedures for a Global Governance Group (3G)
- The implications of the proposal for existing international institutions

4.00 p.m. – 5.30 p.m.   2nd Afternoon Panel

Reform Proposals for the Governance Structures of the Bretton Woods Institutions and the WTO

- Voting Structures, Leadership and Composition of the Governing Bodies
- Democratization and Transparency of the decision making system
- Development as a fundamental objective of WTO, IMF and World Bank
- Strengthening coherence between BWIs, WTO and the UN

Tuesday, July 22nd

10.00 a.m. - 12.30 p.m.   Morning Panel

Alternative proposals and the political feasibility of short and long term Governance Reform - a dialogue with experts

Speakers: **Ariel Buira,** Group of 24
John D. Clark, High Level Panel on UN-Civil Society Relations
Hazem Fahmy, UN Financing for Development Office
Inge Kaul, UNDP

Lunch Break

1.30 p.m.- 5.00 p.m. *Afternoon Panel*

Strategy Session:

- **How can we effectively use the FfD process to influence the official debate on Global Governance?**
- **Lay out guidelines for a background policy paper on Global Governance for the FfD High Level Dialogue in October**

End of Meeting

List of participants
Global Governance Expert Meeting, July 21-22, New York

Gemma Adaba, International Confederation of Free Trade Unions (ICFTU), UN Office

Manfred Bardeleben, FES New York

Ariel Buira, Group of 24

Aldo Caliari, Center of Concern, Washington D.C.

John D. Clark, High Level Panel on UN-Civil Society Relations

Oscar de Rojas, UN Financing for Development Office

Hazem Fahmy, UN Financing for Development Office

John Foster, North-South Institute Canada, Social Watch

Jo Marie Griesgraber, Oxfam America

Eva Hanfstaengel, CIDSE, Brussels

Lori Henninger, Quaker UN Office

Hella Hoppe, University of Muenster, Germany

Betty Kaari Murungi, Urgent Action Fund -Africa, Kenya

Inge Kaul, UNDP

Garth Le Pere, Institute for Global Dialogue, South Africa

Rosa Lizarde, International Facilitating Group on Financing for Development (IFG)

Jens Martens, World Economy, Ecology & Development (WEED), Germany

Nuria Molina, UBUNTU, Spain

Bill Pace, World Federalist Movement, New York

Frank Schroeder, FES New York

June Zeitlin, Women's Environment and Development Organization (WEDO), New York