G24 WORKSHOP ON

"COHERENCE OR DISSONANCE IN THE INTERNATIONAL INSTITUTIONAL FRAMEWORK: A SHIFTING PARADIGM"

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Executive Summary

The general theme of the workshop was global governance. The following aspects of governance were featured in the papers presented and in the ensuing discussions:

- the interrelationships among the major international institutions;
- the divergence between the rhetoric of priority setting and the realities of agenda implementation;
- the role of non-governmental organizations in the decision-making process of the international community;
- the dispersion of accountability within the international financial institutions;
- the role of regional entities vis-à-vis the global organizations, and
- the importance of process in agenda setting and forum selection to the outcomes of international negotiations.

The division of responsibility between the "norm-setting" organs of the international community and their executive agencies was seen as the primary rationale for different patterns of voting powers at an international level. The setting of norms was seen as a task in which nation-states must have equal influence, and this was therefore an essential function of the United Nations, with its one country-one vote system. In the financial arena, the executive agencies could be based on voting power weighted according to contributions made, with creditors carrying a greater influence than debtors. The growing intrusion of the international financial institutions (IFI's) into the norm-setting area of decision-making was seen, however, as an emerging problem. The Bretton Woods Institutions were intervening in many areas within nation-states, such as human rights, political and juridical arrangements and other governance issues.

From the point of view of developing countries, a second weakness in global governance was the contrast between the rhetoric of economic development and poverty alleviation and the lack of political will to follow through on ODA and HIPC funding. Instead, industrial countries tended to focus on issues of interest to themselves, such as international financial architecture. There was also an imbalance between reforms in the area of transparency and of compliance with international codes and standards that were being required of capital recipient countries and the absence of corresponding disclosure and accountability obligations of either unregulated or lightly regulated financial intermediaries in capital source countries. This imbalance was attributed, in part to the growing practice of decision-making by industrial countries within their own exclusive groupings (such as the G7), or in institutions dominated by them (such as the BIS, the FSF, and the Basle Committees). Such decisions were subsequently "legitimized" by being pushed through the global institutions on the basis of weighted voting or – as observed in with various UN bodies – of denying budgetary allocations or withdrawing or threatening to withdraw from membership.

A third element that tended to amplify the influence of the advanced societies in global governance was the growing insertion of non-state actors, including non-governmental organizations (NGOs), standard-setting bodies, and credit rating agencies, into the decision-making processes of international institutions. This was observed most clearly in the influence which the "advocacy" NGOs established in the major industrial countries exerted on the

Washington-based IFIs, and on the United Nations in New York and elsewhere. Similarly, the drive to apply codes and standards set by non-official entities based in the North tended to establish criteria for judgment derived from a particular model of capitalist development practiced in the Anglo-American context which might not be applicable in other historical or cultural contexts. The same strictures applied to the credit-rating agencies that directly affected the credit standings of sovereigns in world capital markets and the judgments on the capital adequacy of banking institutions in the developing world. Greater involvement of both official and civil society participants from other parts of the world remained a principal condition for a more equitable governance process.

The internal governance problems within the international organizations were illustrated by the "leakages" between various decision-making strata, within the governing bodies of the IMF and the World Bank Group. Gaps in "vertical" accountability tended to produce conditions in which the nominally governing bodies essentially "rubber-stamped" both management and staff decisions. A different aspect of accountability was encountered in the "horizontal" relationships between the institutions and their external interlocutors, and raised some of the same issues as were to be found with non-state actors. The means to tighten linkages so as not to leave gaps in accountability was seen as a major issue in the search for a solution, especially in "management-centered" organizations such as the IFIs as against "membership-centered" organizations like the WTO.

The relationship between regional organizations and global ones in overlapping areas of governance was discussed at two levels. Firstly, it was seen in the technical context of payments and exchange rate arrangements, as in the paper presented at the workshop. The ensuing discussion focused on the broader political and economic context of inter-governmental arrangements. At a technical level, the experience gained with regional monetary regimes suggested their non-sustainability in a world of integrated capital markets. At a political level, was the difficulty of exerting "peer pressure" or applying conditionality in the face of multiple relationships with neighboring states that were both trading and investment partners and rivals.

On the other hand, regional arrangements helped the smaller members of the grouping to receive greater attention, and probably a faster response to emerging disequilibria. Whether or not regional trends become stronger depended partly on the extent of control exercised over global institutions – especially the Washington-based ones – by a single government, or a very few western governments.

In addition to content, a significant issue in global governance was the importance of process in international negotiations. The workshop participants agreed that governance was not simply a matter of designing an optimal system and putting it into place, but rather a communicative and consultative process. This process made it possible to set agendas and to choose forums in which disputes could be resolved, consensus arrived at, and performance continuously reviewed.

Overlapping responsibilities of international institutions

Mr. Leiv Lunde, Senior Policy Analyst at the Centre for Economic Analysis (ECON), Norway, presented the first paper on "Overlapping Responsibilities of International Institutions".

The main issues examined by Mr. Lunde were the definition of overlap of international institutions, shifts in the division of labor among them, and areas of increasing overlap. Overlap becomes a problem only when there is waste, resulting in unhealthy competition. The author argued that a "bottom-up" approach was best suited for avoiding overlap. A great deal of progress had been made in dealing with this problem in a variety of fora in New York, Washington and Geneva.

The author illuminated the question of who does what in the division of labor, and examined shifts in the matrix of multilateral development functions. In a comparison of the UN's key mission with that of multilateral development banks (MDBs), Mr. Lunde contended that the UN should focus on improving the quality of its normative work, arguing that the legitimacy of the normative level required the democratic process of one-country, one vote. Operational effectiveness, on the other hand, required a distribution of voting power more linked to contributions to the funding of operations – as in the MDBs.

However, he noted that the MDBs were increasingly intruding into the normative area, and that, if this tendency was unwelcome to the developing world, a choice had to be made between increasing their legitimacy through changes in their governance, or restricting their mandates.

The key issues raised in the ensuing debate were as follows:

- The trend to overlapping had to be resisted, since it eliminated the benefits of specialization, reduced legitimacy and blurred responsibilities.
- There was a need for a strategy of increased cooperation and the avoidance of, "cross conditionality". However, some overlap was inevitable and it was necessary to minimize the disadvantages and maximize the benefits.
- Bilateral donors and NGOs should be brought into the coherence/overlap debate.
- The problem of overlap should be considered at two levels: at the policy-making level and at the implementation level in the field.
- The burden of policy coordination should be shared among member countries as a means of increasing cooperation between them.

Overriding jurisdictions in global financial governance

The paper presented by Mr. Roy Culpeper, Director of the North-South Institute of Canada, dealt with the subject of "Overriding Jurisdictions in Global Financial Governance", whereby a small subset of powerful members of the international community were setting the agenda for the work of the International Financial Institutions (IFI's) and related fora.

Focusing on poverty and the poorest countries, Mr. Culpeper asked how the richer countries could be persuaded that giving priority to sustainable development and the reduction of poverty were in their own enlightened interest. His paper assumed that the rich would continue to dominate international financial architecture, but that it might be possible to persuade them to consider the interests of the poor – whether in the developing world or in their own countries – as a principal strategic objective of their policies in the IFIs.

He noted several instances of "dissonance". The flow of resources to developing countries, including official development aid, had actually declined during the 1990s. The provision of debt relief provided minimal relief in real terms, and the conditions to be met for obtaining debt relief were onerous. Whilst it was necessary to be realistic about the status quo, there was no reason for pessimism either. The Jubilee 2000 initiative was one of the most effective campaigns ever waged against poverty, and the G7 had taken on the problem of poverty reduction at the level of finance ministers. However, the question of "what next?" still needed to be answered.

Some of the topics raised in the ensuing discussion were as follows:

- The need for specific modifications to make the PRSP process more effective.
- Expectations of the HIPC Initiative’s ability to produce poverty alleviation were much too high: increasing real aid transfers were needed.
- Burden sharing was inequitable, since insufficient bilateral funding from the major creditor countries meant shifting the burden to borrowing countries in the World Bank and other MDBs.
- A deeper analysis of "winners" and "losers" within the domestic context would help to move the problem of dealing with poverty away from overdependence on donor commitments.
- For a number of reasons, many African countries did not have much confidence in obtaining the promised benefits of the HIPC Initiative.

Growing insertion of non-state actors into global governance

Mr. Irfan ul Haque, G-24 consultant, identified three categories: NGOs, standard-setting bodies, and credit rating agencies. He argued that, whilst NGOs had an important role to play, the question about their accountability remained open.

As for standard setting agencies, whilst their work of producing standards to achieve greater harmonization and better reporting was constructive, for the developing countries there was a "trade-off" in terms of time and effort. Moreover, standards and codes were "embedded" in domestic legislation which varied greatly depending on the state of development reached by markets. Making standards "universal" assumed much greater harmonization of regulatory and tax arrangements.

This in turn raised the question of which model of capitalism should be adopted: in point of fact, systems evolve, and cannot simply be transferred. Problems arise if the adoption of a particular system of capitalism becomes a condition for the provision of resources by the international community.

A great deal could still be learnt from the successes and failures of various models. There was considerable diversity amongst the developing countries: some already boasted comparatively sophisticated accounting and reporting systems, whilst others still lagged behind. Nevertheless, caution should be exercised not to liberalize markets too rapidly, since this might create current account problems.

Finally Mr. Haque raised the question of who governed the governors: who should be held accountable for mistakes arising from incorrect diagnoses on incorrect prescriptions made by the IFIs? This was certainly a question worthy of attention in the international financial architecture. A genuine outside audit was required, and would benefit the organization itself. An outside audit body could have representation of the countries likely to be affected by any incorrect decisions.

The following issues were raised in the ensuing discussion:

- Since the growth of NGOs represented an irreversible trend, it was necessary to find the best ways of dealing with them. A differentiation should be made between the various types; advocacy versus service providers or those funded in the North versus the South. Though common criteria may apply, the types of issues involved were different.
- Markets needed real-time information and statistics: standards and codes helped such information to be correctly understood in time of crisis.
- The IFIs should try to avoid rating countries on a pass/fail basis. The aim was to promote better practices, possibly on the basis of voluntary codes, and help through technical assistance.
- There was no specific evidence that better information could have averted recent financial crisis.
- If accountability for IFI's lay firmly with their Executive Boards, there would not be a need to "govern the governors".
- Since the developing countries were unlikely to have a greater voice in the Bretton Woods institutions in the near future, other tools such as public opinion and the press would have to be used to press forward their views.

Accountability issues in the international financial institutions

Ms. Ngaire Woods, Fellow, Oxford University, presented a paper on accountability, governance and reform in the international financial institutions. Although they had become more transparent and participatory in recent years, both the IMF and the World Bank (IFIs) remained under pressure to become more accountable. However, to date there had been no satisfactory definition of the concept of accountability. The core components of accountability were transparency, compliance, and enforcement. After making a distinction between vertical and horizontal accountability, the paper outlined the "leakages" in the system, including the weakness of their governing Boards, as illustrated by the procedures for the appointment of their chief executives. Existing gaps in IFI accountability were being magnified by broadening mandates and increasingly wider areas of responsibility. This inevitably meant that some of the lines of accountability were being bypassed.

The IFIs needed new chains of accountability as they took on new tasks. The paper outlined recommendations for a series of changes in governance at the level of staff, management, the Executive Boards, and in relations to member countries. However, the key issue at stake here was whether these changes would be accepted by the major shareholders in these institutions.

A number of issues were raised in the ensuing discussion.

- The real issue was not so much one of "vote", but of "voice".
- The trend to move issues out of the IMF, even where that institution had a clear mandate, had to be resisted, as it detracted from the legitimacy of decision-making.
- While the BWI Executive Boards might appear to "rubber stamp" some decisions (e.g., the appointment of their Chief Executives), most other policy issues were resolved through a process of consensus-building.
- Achieving a greater "voice" required developing countries to take a proactive role in the ongoing debates on systemic issues and to substantiate their proposals with the help of academic research.
- Although accountability in itself was a good thing, there was no clear-cut evidence that it actually produced better outcomes.

Regional monetary arrangements for developing countries

The paper presented by Mr. Roberto Chang, formerly of the Federal Reserve Bank of Atlanta, addressed the merits of regional monetary arrangements in terms of their contribution to financial stability and economic growth. The paper concluded that regional payments mechanisms were not particularly effective in a world of integrated capital markets. Regional monetary unions, on the other hand, might hold out more promise, although empirical evidence was mixed. The ensuing discussion raised a number of issues:

- The analogy of the European Monetary Union was not applicable to other regions. The European members had evinced a strong desire for political unity. The adoption of a common currency was preceded by the gradual convergence of macroeconomic policies and a long process of harmonization of commercial, financial, tax and other regulations.
- Without a strong political motivation for unification, it would prove difficult to apply "peer pressure" in regional groups of developing countries.
- Regional arrangements might prove more helpful for the smaller members of a grouping who might receive greater attention and quicker response than might be forthcoming from a more distant global institution.