



The Centre for International
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Centre pour l'innovation dans
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Summary of Brookings-CFGS-CIGI Conference

“International Institutional Reform and Global Governance”

held at Brookings, Washington, DC
on May 4th and 5th 2006

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The *purpose* of the conference was to engage officials from G20 countries in a policy dialogue on governance reforms in specific international institutions, with a special focus on the International Monetary Fund (IMF), and in the expansion in the country membership of the annual G8 summits, and the potential interactions among them. The conference was confidential and off-the-record so as to encourage frank discussion by and among officials. It was the culmination of a series of seminars held at Brookings involving Washington-based officials from G20 countries on IMF reform, World Bank reform, the G20 finance ministers group, the Bank-Fund inter-ministerial committees (the International Monetary and Finance Committee (IMFC) and the Development Committee), global health governance and UN reform, bringing these issues together and linking them to summit reform. It also served as a wrap up meeting of a parallel series of CFGS-CIGI conferences exploring the merit of the concept of raising the G20 Finance Ministers to Leaders level (www.L20.org).

Seventy-five people participated in the conference from leading think-tanks, universities, and NGOs as well as forty officials from sixteen countries. Senior officials from capitals participated representing five of the G20 countries. Financial support was provided by the Wolfensohn Initiative at Brookings, the Centre for Global Studies at the University of Victoria with funding from the International Development Research Centre in Ottawa, and the Centre for International Governance Innovation in Waterloo.

Day One: International Institutional Reform

The conference took place two weeks after the Spring Meetings of the IMF and the World Bank during which significant progress was made on redefining the role of the

IMF in the world economy and reforming the governance structure of the Fund. Specifically, ministers had discussed the IMF Managing Director's "Medium Term Strategy" (MTS) and a selective capital increase in IMF resources was proposed for four under-represented countries in Fund governance, namely, China, Korea, Mexico and Turkey. On May 4-5 these reforms were thoroughly discussed in preparation for actions to be taken at the IMF-WB Annual Meetings in September in Singapore, at which time countries are committed to decide on IMF actions and the future reform agenda, in response to a proposal made by G20 finance ministers. As a consequence, the May 4-5 conference was the first opportunity for G20 officials to discuss the reform path for the IMF from the Spring Meetings to the Annual Meetings in Singapore on September 17-20.

Many participants emphasized the degree to which the current conjuncture represents "a window of opportunity" for IMF reform. Several expressed concern regarding the urgency of these reforms, recognizing that there is frustration and resentment in governments at the slow pace of IMF reform and that failing to act in a timely way could leave the institution in a seriously weakened position with consequences for global financial stability and global governance. Warnings were sounded to avoid a failure, such as occurred on Security Council reform at the UN Millennium Plus Five Summit in September 2005, or at the IMF-WB Annual Meetings in Madrid in 1994 (when the frustrations of developing countries at being unable to get approval for additional resources for debt reduction through an SDR allocation led them to oppose a proposed SDR increase for economies in transition). There was worry that without effective, timely action on IMF reform in Singapore there could be increasing polarization in global politics and fragmentation in global governance. There was concern that if no changes are made or if reforms are mismanaged, major countries from Asia, Europe and North America could "drift" away from the IMF, leaving it unable to deal with major problems and leaving the world without a truly global institution to safeguard global financial stability.

Broad conceptual ideas were put forward regarding principles of governance reform, such as universality, legitimacy, subsidiarity, efficiency and accountability, which could/should be applied not only to specific institutional reforms but also be applied to broader global governance reforms so as to create congruence between different layers of the international system. It was pointed out that there are "gaps in the system", issues that fail to be addressed because there is no institution currently charged with focusing on them or because of failures to coordinate among existing institutions on cross-sectoral issues. The inter-ministerial IMFC and Development Committee have mandates limited only to the IMF and the World Bank, so there is no body that oversees the multilateral system as a whole. These points on both principles and gaps, implied the need for both specific institutional reforms and broader governance reforms that would reinforce each other rather than work at cross purposes.

Specific reform ideas embraced a broad set of issues, and many panelists and officials expressed the view that there needs to be a package of serious IMF reforms which together can make a difference in the role, responsibility, legitimacy and effectiveness of the Fund. Attention was focused on phase I leading up to Singapore in September and phase II after Singapore. Most observers felt that there is a delicate balance involved in

phase I wherein significant concrete reforms need to be approved in Singapore which provide momentum for phase II but not be so significant that the drive goes out of the reform process. As a consequence, the most likely scenario seems to be that a specific selective quota increase for China, Korea, Mexico and Turkey and perhaps a few other large emerging market economies also under-represented in the “chairs and shares” structure at the IMF Executive Board would be put before the Board of Governors (ministers of finance of all member countries of the IMF) for their approval in Singapore. The G20 finance ministers deputies and the IMFC deputies and the IMFC itself are likely to be the crucial bodies for generating this proposal and for identifying the set of actions which would also be proposed in Singapore for implementation during phase II.

Beyond the selective quota increase, the most often mentioned issues for phase II include the following. First, a re-examination and restructuring of the formula for determining the size of individual country quotas and voting shares in the Fund. Whereas there is general agreement that the existing formula is obsolete, there is considerable controversy still about how to fix it, among other things, whether to include population as one variable in the formula. Second, most participants felt that a reconfiguration of the chairs at the table of the IMF Executive Board is necessary with some countries feeling that there must be a reduction in the number of chairs from 24 currently to 20 along with a substantial readjustment in voting shares assigned to each country based on the new formula. One proposal under consideration for some time is that the four European chairs be merged into a single chair for the European Union. Some feel a realignment of countries and chairs creating new constituencies would be in order while others felt that current constituencies embodied habits and experience which could be a strong base for continuing representation and governance.

Third, some felt that a general quota increase could be an important “lubricant” in easing restructuring “chairs and shares” in the Executive Board. Others, most prominently the United States, oppose a general quota increase, arguing that there is no current shortage of available IMF resources. Fourth, changing the role of the Executive Boards in the IMF (and the World Bank) is a major issue, with many contending that Boards should be more sharply focused on strategic issues, involving itself less in details of loans, grants and policy papers, that it should be less intrusive and more removed from day-to-day operations. (See CGD report, “Five Crucial Tasks”, for example; <http://www.cgdev.org/content/publication/detail/2868/>) The argument was made that Executive Directors should be political appointees responsive directly to ministers of finance or heads of state and should bring a political perspective and responsibility to major issues focusing exclusively on strategic and policy matters. Fifth, the two inter-ministerial committees, the IMFC and the Development Committee, are seen by many officials to be (a) excessively driven by Bank-Fund staff, (b) unresponsive to the issues of interest to ministers, (c) over-prepared, (d) overly rigid and ritualized, and (e) excessively focused on the final communiqué rather than on discussions and decisions. Therefore, there is a push to revamp the operations of the two committees into decision-making “councils” (see Per Jacobsson Lecture by Michel Camdessus <http://www.perjacobsson.org/lectures/092505.pdf>) with a more politically responsive agenda, more informal give and take, and more clout, as well as creating congruence in

composition with restructured “chairs and shares” in the Boards. Sixth, the opening up of the appointment of the Managing Director of the IMF (and the President of the World Bank) to a merit-based, transparent, competitive process to replace the tradition that the United States effectively names an American to be the President of the World Bank and the Europeans propose a European who is normally automatically approved to be the Managing Director of the IMF, is seen as a significant potential element in the phase II reform package. These six items are all governance reforms.

The main focus of the redefinition of the role of the Fund in the world economy is on strengthening the surveillance function of the IMF by multilateralizing it. (See Medium Term Strategy (MTS) at www.imf.org.) The central idea here is that the primary role of the IMF is in international economic policy coordination among major countries in Asia, Europe and North America as the global guardian of financial stability with priority attention to their domestic and international economic policies driving patterns of global imbalances with inherent global risks. The new idea is that by enlarging the surveillance process from one primarily between the Fund staff and the government concerned, as traditionally undertaken, to one of peer review involving senior officials from governments of other countries with roles in mutual adjustment and/or stakes in the outcomes, there will be more likelihood of improved coordination among major players and of movement on the part of powerful countries to adjust their policies in response to assessments of global impacts and risks. IMF senior staff would also be more directly engaged.

Two other major issues are highlighted in the MTS and in the May 4-5 discussion are strengthening the role of the IMF in relation to big emerging market economies and middle income countries by enhancing their access to Fund resources and their role in Fund governance and strengthening the role of the IMF in relation to low income countries by focusing on macroeconomic policies for growth and poverty reduction, on the macroeconomic effects of aid on achieving the Millennium Development Goals, and on the sustainability of debt relief. These substantive shifts would reposition the Fund to play a stronger global role in relation all IMF member countries.

A luncheon presentation on the difficulties of United Nations reform provided an overview of the main challenges and obstacles and a sense of the similarities, differences and linkages between UN reform and IFI reform which were brought back into the conference at the end of the second day.

Day Two: Global Governance Reform

The second day of the conference focused on the actual and potential functions of the annual G8 summits begun in the mid-1970s followed by a discussion of alternative forms of summits, with particular emphasis on alternatives with expanded membership. Based on this focus on form-follows-function in summits, the final session of the conference examined the issue whether the pieces add up in assessing whether there is a possible “grand bargain” on international institutional and global governance reform taken together.

Beyond their role in dealing with global issues and challenges, the importance of less tangible benefits arising from summits was emphasized. Leaders do develop personal relationships and rapport among each other which can facilitate coordinated actions in critical moments or in crises. They thereby develop a desire to help each other politically. They often share frustrations and burdens of office, including their relations with their ministers of finance and foreign relations who prepare the summits. It was pointed out that summits are a slow process of social capital building which has value in the future, not only in the present. Participants pointed out that summits can help resolve issues that (a) have become stuck at lower levels or deadlocked in other international fora, (b) cut across different sectors, ministries and institutions, and (c) issues that are out in the future but which require action now.

Panelists outlined a large set of global challenges and issues that could benefit from summit level attention and possibly decision. Prominent among these was precisely governance reform in the international financial institutions and the UN where despite the strong role of finance ministers and finance ministries, as well as foreign affairs officials, it was widely believed that ultimately the involvement of heads of state may be required to push through final compromises, commitments and decisions. Similarly, global health governance and the international institutional structure dealing with the environment were convincingly described as fragmented, weak and inadequate to the challenges in these two critical spheres. A range of other issues were mentioned from trade to development, terrorism to crime, nuclear proliferation to energy security, aid and the MDGs, conflict management and weak states which speakers thought required summit level attention and action. Most observers agreed that whereas there were challenges to be faced in all these domains, a crisis or major event would probably be needed in these thematic areas to trigger summit level attention.

The discussion then turned to alternative forms of summits which might follow from a consideration of these issues and challenges or from other trends and events. A strong case was made for vaulting from the G8 group of industrial countries to an L20 group of the ten emerging market economies plus Australia and the EU which constitute the G20 finance minister group which has been meeting successfully on an annual basis since 1999. Alternative formulations were presented including adding chairs for smaller poorer countries, using regions as a vehicle for representation, using the existing or reformed constituencies in the Bank and the Fund as representational channels to summits. Also, mentioned was the idea of having an enlarged core group of countries composed of the G8 plus a selected number of emerging market economies (China, India, Brazil and South Africa being the most obvious choices) followed by “variable geometry” consisting of a half dozen countries being chosen depending on the issue or challenge under consideration. This idea merged with another version whereby health ministers might meet in an H20 which would be a group of the most critical countries in health governance, an E20 might meet on environmental issues composed of a different configuration of countries, and so on. And if and as these forums developed proposals that only heads could deal with, then summits would be convened with the H20 or E20 composition of countries to resolve the outstanding issues. This would be a form of variable geometry, broadening representativeness and inclusion, and avoid the presumption of annual summits which tends to generate a momentum of paper, process and staff and press participation which if anything mitigates against informal discussion

among heads, spontaneous involvement by them in the issues, and decision making on selected critical issues.

There was an exchange on the issue of legitimacy and representativeness focusing on those countries excluded from summits, even summits larger than the G8. The issue, given the underlying concern about the power and influence of the summit members (a “directoire” or oligarchy to run the world), was to emphasize that participation, consultation and mode of operation would be key to legitimacy.

In the last session of the conference, officials were asked whether, based on the two days of discussion, the pieces added up to a potential “grand bargain” for advancing the international reform agenda. In general finance ministry officials thought that the G20 was a highly valuable forum for dealing with the global economy and with IFI governance issues. There was some worry among them that the effort to build an expanded summit from that G20 to an L20 might complicate and indeed harm the effectiveness of the finance ministers G20 annual meetings, the work of their deputies and the networking and consensus building which are such strong elements in international financial cooperation. Nonetheless, there was broad acknowledgement that the global economy is changing in structure and that the governance structures of the major international institutions, not just the IFIs, needed to reflect those changes.

There was also wide recognition that many of the challenges were cross-sectoral and hence inter-ministerial within countries and inter-institutional in the global architecture, requiring different modes of international cooperation and representation. Many emphasized the significant differences in the ways that foreign ministries and finance ministries operate. As a consequence of these perspectives, there was a perception of the need to move forward simultaneously in several institutional and issue areas, to coordinate across ministries internally and among countries internationally, and to think in a more integrated and comprehensive way about reforms rather than remaining within ministries, tracks and institutions for each set of individual reforms. Nevertheless, there was a strong caution against the notion that this diverse field of elements, issues and institutions provided a realistic opportunity for grand bargains. Simultaneous awareness of what was happening in other domains was necessary but the opportunities for cross-sectoral trades seemed much less promising and hence less likely.

Following from these observations, many felt that a decisive change in the country composition of the annual summits was not likely to occur soon, in part because of the lack of consensus on a specific formula for expanded inclusion and because of a lack of enthusiasm for enlarging the G8 on a regular basis. Nonetheless, there did seem to be widespread support for the view that global challenges were urgent, that existing institutions were not fully adequate for addressing them, and that new powers in the world needed to be both recognized and included in deliberation on global matters that go beyond the purview of the G8. Hence, there was a sense that (a) the international reform agenda would move forward across several domains, (b) IMF reform was probably the most ripe for action and was on a track and a timetable to result in new decisions in Singapore with a clear follow up agenda, and (c) summits would in all likelihood also reflect global shifts in power relations more by ad hoc sectoral summits

or summits triggered by crises or events than by a once-and-for all expansion in the number of countries with seats at the table at the annual G8 summits. The balance of these conclusions may have been shaped by the fact that not all G20 countries had representatives engaged in the conference and that finance ministries were more represented than foreign ministries on both days of discussions.