

**Brookings-CIGI-CFGS Conference \***  
**International Institutional Reform and Global Governance**

May 4-5, 2006

The Brookings Institution, Washington

*Overview:* On January 9<sup>th</sup> the lead editorial in the Washington Post on “Globalization’s Deficit” surveyed the WTO, NAFTA, the IMF, the World Bank, the G-8, the United Nations and NATO and found they “have run out of forward momentum” and that “the stalling of international institutions is striking --- and troubling”. The G20/L20 Global Governance Project at Brookings with support from CIGI and CFGS in Canada is holding a series of seminars with Washington-based officials from G-20 countries to discuss the reform prospects in individual international institutions and their implications for global governance. The May 4-5 2006 conference is a culmination of the seminar series which will have looked at many of the same institutions as the Post editorial. The conference will reflect on the connections, disconnections, dynamics and spill-over effects of actions or inactions within these various domains for each other and the international system. There will be a special focus on summit reform, expanding the number of countries and the representativeness of the annual summits, currently under the auspices of the G8, in addressing global challenges and issues.

The conference is looking for opportunities for action to break the “stall” in the institutions and the stalemate in reform that have come to mean that the international system of institutions seems to be inadequate to the tasks of the 21<sup>st</sup> century. The conference program identifies critical factors and issues which present both possibilities and problems for reform in a sequence which hopefully builds toward some conclusive perspectives that integrates different features of the international landscape. As the seminar series for officials from G20 countries has moved forward, the obstacles to reform within the IMF and the World Bank seem considerable. By delving into reform issues in the Fund and the Bank in the first day of this conference, we are widening the audience for consideration of these issues with a view to seeing if summit reform is the perhaps the only hope for achieving IFI reform. Then, on the second day we begin by looking at other issues in the same light: are there other issues and institutions in the international system which need a broadened and strengthened summit framework in order to meet global challenges effectively? Do these institutional reforms and issues provide compelling reasons for moving forward on summit reform? What are the options for summit reform? Finally, is there “a grand bargain” that might emerge from the specific pieces of the reform puzzle to provide an opportunity to move the world forward on several fronts simultaneously?

This program draws upon our own research, consultations with governments, and seminars and roundtables with fellow think tank colleagues, NGO leaders and officials from G-20 countries. In addition, it utilizes the central ideas put forward by Michel Camdessus in his lecture on “International Financial Institutions:

Dealing with Global Challenges” in the Per Jacobsson Foundation Lecture given in Washington on September 25, 2005. We have also found Kemal Dervis’s CGD book on A Better Globalization: Legitimacy, Governance and Reform an insightful source. Work by Ralph Bryant (Brookings), Ted Truman (IIE), Fred Bergsten (IIE), James Boughton (IMF), Nancy Birdsall (CGD), Mark Zacher (CFGS) and others, including the ideas of Jacques Mistral (Harvard), have also been important in developing this proposed program.

*Issues for the Conference----International Institutional Reform—Day 1*

*Role of the Executive Boards:* The role of the Executive Boards in the Bank and the Fund have been critically examined for both their composition and their role. There is a sense that the Boards delve too deeply in the details of loans, policies and operations in the IFIs and, as a consequence, “miss the forest for the trees”. For example, the CGD report on Five Crucial Tasks for the New President of the World Bank proposed a review Executive Board functions and responsibilities in the Bank with a view to “how to make the Board more strategic, with an emphasis on its central task of setting objectives and holding management to account”. IMF historian James Boughton has expressed some similar ideas in his presentation at an IMF conference in the fall of 2005 and at the G20 officials seminar on November 30, 2005. A similar review could occur for the IMF as well. Executive Board meetings might be held less often and sometimes in developing countries to reduce the intrusion of the Board into day-to-day operations of both IFIs and oversee bigger picture strategic management of them derived from guidance provide by ministers and heads of state, on one hand, and senior management, on the other. Summits would be able to survey the context of global challenges and the relative roles of various international institutions in addressing them in a world in which challenges and responses are multisectoral in nature.

*IFI Councils:* Michel Camdessus has proposed the creation of councils of ministers for both the Bank and the Fund which would, together with heads of states at summit level, provide strategic guidance for each institution and relations among them and with other international organizations. Hence, with such councils the new arrangement would link a reformed heads of state summit to the ministerial level councils and the Boards of Governors for each institution to direct senior management and the Executive Boards on the broad directions, criteria and policy goals of the IFIs. This would *replace* the current chain of command of the Board of Governors, the Bank-Fund ministerial level International Monetary and Finance (IMFC) and Development Committees, and the Executive Board. The creation of the two “Camdessus councils” would constitute a significant shift in governance of the IMF and the World Bank, among other things eliminating the IMFC and the Development Committee. What is left unanswered is which countries would constitute the “Camdessus councils”. Who is in, and who is out, and what criteria is used to decide the country composition of any international governance body is one of the great

unresolved questions, which will be dealt with in the second day of the conference on global governance.

*Leadership Selection:* Another IFI reform issue with broader implications, is the question of who selects the president of the World Bank and the managing director of the IMF. Currently, the United States nominates, without opposition historically, the president of the World Bank, and the Europeans agree among themselves on a nominee to be managing director of the IMF which has in some cases run into opposition. But the Europeans do have the initiative on the head of the IMF. It is also the case that non-Europeans have been considered for the position on three occasions. The leadership selection issue has been thoroughly examined in an IIE book by UCSD professor Miles Kahler. There seems to be no doubt but what comparable talent exists in other countries to undertake these important posts. There is some question whether these two IFI positions should be restricted to citizens from the creditor countries that provide the most resources and seek the most influence. But not all agree on this. For those looking for reform in leadership selection at the Bank and the Fund, the choice of an experienced official from Turkey to run the UNDP and a former top official of Mexico to lead the OECD are signs that reform in leadership selection is already under way. One way to widen the web of reform elements involved would be, as suggested by Johannes Linn (Brookings), that the leadership of some of the major international organizations be considered together and that rotation by regions in each could be sequenced so as to provide greater regional balance and more equity in regional representation at the top of the international system. This introduces regions as a factor in global governance decisions which has repercussions for summit reform and other domains.

*Chairs and Shares:* Many have argued for that the current power structure in the Executive Boards of the Bank and Fund is based on a post-world war II formula that is now obsolete. Proposals for changing the structure of “chairs and shares” abound, but agreement is tediously difficult. (Truman 2006) Nevertheless, there is persistent pressure for reform coming from many quarters, not least an enjoiner by the G20 finance ministers at their last meeting in October 2005 in Beijing and the IMFC ministerial communiqué in April 2005. Ralph Bryant has argued that a change in the “chairs and shares” formula in the operational institutions like the Bank and the Fund could then be reflected in the reform “consultative bodies” like the annual summits. He finds that constituencies have been useful in the IFIs and proposes extending reforms in constituencies to “consultative bodies” like the Camdessus councils and the annual summits.

Also, there are other ways to allocate voting shares besides formulas using economic and social weights. The voting in the Global Environment Fund (GEF) and in the Trust Funds for global public goods, both housed in the World Bank, have distinctive voting share arrangements derived from the contributions to these funds. These could be discussed as analogues for new arrangements in other institutions.

*Rules:* Clearly, the voting rules in the institutions have implications for which reforms are acceptable to member countries. Rules can safeguard interests of those who are being asked to decrease their influence and by those who are being asked to assume more responsibility. Hence, a discussion of shares should be taken up in conjunction with a discussion of rules. James Boughton (IMF) has suggested that the supermajority rule, requiring 85 percent of the vote for certain major issues, allowing thereby the US to have an effective veto on these issues, could be abolished or modified . (G20 seminar 30NOV05) The CGD report on the World Bank argued that “options should explore...the merits of applying double majorities on some decisions (that is, 50 percent of all votes plus 50 percent of all members)”. (CGD, p 27) As in summits, countries with power do not want to loose decisive influence and countries gaining power want to increase their influence and keep from being dragged into appearing to agree to something with which they disagree. Rules could safeguard the interests of both types of countries. (Bradford, 2005, p 15.)

#### *Issues for the Conference----Global Governance Reforms----Day 2*

*Summit Form follows Function:* During the last year, the Brookings-CIGI roundtables and seminars on summit reform organized in Washington for the most part have had a format in which discussions of purposes, missions and functions of summits precedes the discussion of the country composition, structure and form of summit groups. There is a danger in delinking the two topics in that the issue of “who is in and who is out” becomes so absorbing that it can lose the justification and realism based on what is trying to be accomplished. As a consequence, the format of previous discussions will be continued in this conference, albeit with new voices and issues to be presented.

*Summit Functions:* The Centre for Global Studies at the University of Victoria, along with CIGI, have done a series of conferences teeing up key global challenges for summits so that, in the event of a new expanded summit grouping, issues would be already prepared for consideration and action by leaders. See <http://www.globalcentres.org>. One way to think about issues driving summit reform is to see to what extent the priority or urgent issues that surfaced in this series of CFGS-CIGI conferences over the last two years can push the summit reform agenda forward. Another is to see to what extent the “Millennium Agenda”, the implementation of the five baskets in the Millennium Declaration and the seven Millennium Development Goals, both derived from the UN Millennium General Assembly in September 2000 in New York, constitute a compelling agenda for summits. Still another is the degree to which the economic and financial challenges facing the global economy in themselves require summit leadership. Global health not only is urgent, but is bedeviled by problems that health ministers and the WHO have not been able to deal with. There is lots of money earmarked for disease eradication but virtually no WHO money and scant

resources elsewhere for dealing the central health challenge in developing countries, namely strengthening public health systems. The poverty-development-health link, implicit in the MDGs, is lacking institutional and strategic guidance which only summits could provide. Also, the world waits in suspense to see if global climate change and other environmental challenges will evolve in such a way as to threaten global stability such that these also constitute potential issues to justify consideration by leaders from a globally representative group of countries. Finally, security issues --- non-proliferation, terrorism, drugs, transnational crime, small arms trafficking ---are also potentially issues requiring action by leaders at the highest level from a greater variety of countries.

*Alternative Summit Options:* After considering ways in which the size and composition of an expanded summit grouping might follow more or less directly from this menu of purposes of summits, it is important to focus on alternatives that are already under discussion and evaluate them in relation to critical criteria and further options for summit reform. Former Canadian Prime Minister Paul Martin is already on record in Foreign Affairs and elsewhere in favoring a ratcheting up of the G20 ministers of finance grouping consisting of ten industrial and ten big emerging market economies to an L20 leaders level summit group. Alternatives to this include adding chairs for the poorest countries (Helleiner FT 4JAN06); using regional leaders as representatives at the global level drawing on rotating heads of state leadership of regional institutions such as the African Union, ASEAN, CIS, ACP and others (Albrow and Bradford, Warwick, 2005); adding the four most obvious countries to the G8 (that is, China, India, Brazil and South Africa) to constitute a “core” L12 to be augmented on a revolving basis by six to eight additional seats for different countries depending on the issue under consideration, known as “variable geometry” (Bradford 2005); collapsing the European seats at the G8 into one chair in the G-20 reducing it to an G16 which could then be elevated to an L16 (Bergsten September 2005).

Each of these options could be explored, illustrating the trade-offs and compromises that are implicit between size, representativeness, and effectiveness. Since legitimacy rests equally on inclusion and on performance, there is a tension that can not be resolved but simply brokered between these conflicting requirements. Discussing options reveals the compromises that are necessary.

*Do the Pieces Add Up?* Having considered the specific elements at play in both individual institutional reform issues, especially in the World Bank and IMF, and in summit reforms, as well as general issues and options, the question remaining to be explored by the conference is: is there a way of framing a package of issues which provide the opportunity for a “grand bargain” in which movement could occur on multiple fronts simultaneously which would reinforce each other? It is hoped that the presentations, discussion and debates at the conference itself, precisely by joining consideration of institutional reforms and global governance issues together, may reveal new opportunities. It may be possible to move forward from stalemate toward an international system more able to meet global

challenges and capable of more democratic, inclusive and effective governance. Even if most conclude that the potential for a “grand bargain” is small, it is hoped that some specific areas of action may be perceived as feasible and that these actions, at least, may be seen as able to be executed individually *without* the framework of a larger web of factors, elements and issues from which to develop more dramatic systemic reform. The conference may conclude that there is a set of issues which are impossible to advance without summit reform first as a vehicle for pressing issues forward, which then compels summit reform. Or the conference may reveal that the obvious reforms needed in, say the IFIs, seek to enhance the role of EMEs and other important non-industrial countries in IFI governance, such that their salience makes clear that the G8 also needs to be reformed. Either way, the linkages between institutional reform and global governance does make manifest the degree to which the international system is in trouble and needs reform.

\*Note: The Centre for International Governance Innovation (CIGI) in Waterloo and the Centre for Global Studies (CFGS) at the University of Victoria in Canada have provided financial support, along with the Wolfensohn Initiative, for this G20 / L20 Global Governance Project at Brookings. The project has also benefited greatly from informal collaboration with the Institute for International Economics (IIE) and the Center for Global Development (CGD).

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