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The Bretton Woods Institutions: A Case for Fundamental Reform

Introduction

The Bretton Woods institutions have been the subject of mounting criticism and dissatisfaction within the South and also in the North. They are an important source of friction and controversy in North-South relations and the time has come for serious attention to be devoted to their reform. The causes for dissatisfaction are numerous, including the actual functions these institutions perform, the manner in which they carry them out, the way in which they are governed and controlled, and their relationships with the United Nations.

As noted in the previous chapter, the aim of establishing the International Monetary Fund and the International Bank for Reconstruction and Development (World Bank) was to put the world monetary, financial and trade systems on an orderly basis. Central to these proposals was a recognition of the need to provide a mechanism for the transfer of financial resources from the more industrialized countries to promote the reconstruction and development of other countries.

Taking stock of the performance of these tasks paints a disappointing picture. IMF has not managed to establish itself as the last-resort provider of liquidity sufficient to ensure the growth of global trade and other transactions, or for maintaining stability in the overall balance of payments of member countries in the face of external shocks. With the collapse of the system of fixed exchange rate parity in 1971, IMF ceased to pursue its intended function of ensuring exchange rate stability. Indeed the IMF has played little or no role in ensuring the stability of the global monetary and exchange rate environments.

IMF has focused instead on coping, often inadequately, with exigencies and global shocks: the oil shock of the 1970s, the

debt crisis of the 1980s and the transition crisis of the 1990s. Moreover, as a direct result of its role in lending to developing countries, IMF has also become a principal instrument to enforce discipline over the developing countries and, more recently, economies in transition.

Yet, the bulk of the tasks originally specified for IMF are as valid today as they were when the institution was established. A renewed effort is therefore required by the whole international community to agree on the contours and rules of a new international monetary framework to promote exchange rate stability, orderly capital flows, and to make resources available to Fund members.

The World Bank's primary role was to act as an intermediary in the world capital market in order to channel resources for development on concessional terms. However, the World Bank has not been able to mobilize resources for development on a scale commensurate with the needs of developing countries and at attractive rates. Taking into account the exchange rate risks on its various facilities, it is now among the most expensive providers rather than the cheapest source of non-concessional funds. Furthermore, in recent years, its net lending to developing countries has been negative.

Moreover, much of the Bank's activities, as also IMF's, has been geared to securing debt repayment from developing countries on behalf of the developed creditor countries. In the process it has exercised increasing surveillance and undue influence over economic policies and the direction of development in debtor countries.

The IMF has carried out little if any surveillance over the fiscal and monetary policies of industrial countries, although their policies have a considerable global impact, in particular as far as the prospects for growth, trade, employment and investment of developing countries are concerned. Nor has it subjected developed countries to IMF disciplines and conditionalities.

The governance structures of these institutions preclude the possibility of developing countries having much influence over them. Thus, it is the economically powerful countries which determine the extent to which and in what manner any particular

function of these twin institutions is to be performed and also the tenor and content of the policies that in are in effect thrust mainly upon developing countries.

In previous chapters, it was argued that there is a need for truly multilateral efforts to introduce a greater degree of coordination in global economic matters in order to improve the development prospects of developing countries and also to work towards greater stability in the world economy in the interests of all. Unless there are substantial changes in the activities, in the governance and the relationships of the Bretton Woods institutions, moves in such a direction will not materialize.

If and when these matters are dealt with, this happens within the Group of Seven industrialized countries (G-7), without any participation or input from the rest of the international community which is vitally affected by such policies. Proposals for the involvement of the IMF in improved co-ordination among the G-7 countries would do little if anything to ensure that the South's interests would be given due attention.

There are six crucial issues for developing countries regarding the policies and practice of the Bretton Woods institutions which require in-depth review and appropriate action:

- The supply of international liquidity
- The supply of development finance
- The debt problem of the low and low-middle income countries
- Conditionality
- Governance
- Relations with the United Nations.

The Supply of International Liquidity

The creation and distribution of international reserves

Ever since the establishment of the Bretton Woods institutions, there have been discussions on appropriate ways to supply reserves to developing countries in order to facilitate their trade and development needs.

Today, 22 industrialized countries and 18 developing countries hold 90 per cent of total international liquidity. The remaining 10 per cent of international reserves are held by some 138 countries, many of which are low-income and have little access to international financial markets for secondary sources of international liquidity. Faced with a scarcity of reserves, they are therefore forced to limit the level of their imports, with a consequent adverse impact on their economic growth.⁵⁴

The present rate of supply of international liquidity -- comprising gold, foreign exchange reserves (currencies and government securities) and allocations of Special Drawing Rights (SDRs) -- is somewhat haphazard. With SDRs providing less than 3 per cent of international reserves, the supply of international liquidity thus depends largely on the fluctuating outflow of currencies of a limited number of reserve currency countries and on fluctuating sales of gold. The aggregate of these two supplies may, however, differ substantially from the world demand for reserves.

In order to remove this bottle-neck, developing countries need to press for policy changes by the multilateral financial institutions on the following matters.

54. Ariel Buira, "International Liquidity and the Needs of the World Economy", in UNCTAD, *International Monetary and Financial Issues for the 1990s*, Volume IV, 1994, p. 37.

Special Drawing Rights

Special Drawing Rights were established by IMF in the early 1970s in order to remedy the shortage of international liquidity. It was the declared intention that they become the main reserve asset on a world scale. However, any issue of SDRs needs a specific allocation decision, and agreements within the IMF on such allocations have been reached only on two occasions: in 1970-1972 for SDR 9.5 billion in three instalments and in 1979-1981 for SDR 12 billion, also in three instalments.

At the end of 1994, the total allocation of SDRs accounted for only 2.6 per cent of total international reserves, compared to 8.4 per cent in 1972. Discussions on a new allocation have been going on for the last several years but have not yet resulted in a decision to allocate new SDRs, due to resistance from several leading industrial countries.

The fact that the G-7 at their June 1995 Halifax meeting asked the IMF to initiate a broad review of the role and functions of the SDR in the light of changes in the world financial system indicates that there is perhaps now a greater willingness to consider a new issue of SDRs. Developing countries need to ensure that any such review be undertaken by a committee which includes representatives of governments of both developing and developed countries, taking into account both the special problems of developing countries and the changes in the world financial system.

In the meantime, however, the negotiations on a third allocation of SDRs need to come to a speedy conclusion, and one that is satisfactory to developing country interests.

'Emergency financing mechanism' to offset capital outflow

The decision to establish a new IMF 'emergency financing mechanism' funded by the G-7 to assist countries experiencing capital outflow is in principle encouraging. However, it needs to be recognized that economic instability and capital outflows from developing countries are not simply the result of faulty domestic policies in developing countries. These capital flows are provoked

“also, and quite significantly, by conditions prevailing in the industrialized world.”⁵⁵ Therefore, such a facility to assist developing countries must be free of the sort of political and economic conditionalities that have crept into other Fund lending facilities.

Restoration of the Compensatory Financing Facility

Developing countries which experience fluctuations in their income need to be financed if the adverse effects are to be mitigated. The IMF Compensatory Financing facility, though limited to export shortfalls only, proved a useful and successful device, but was abolished. Developing countries should seek to have this IMF Compensatory Financing Facility restored and widened. The restored facility should provide finance for shortfalls of exports caused by factors beyond the control of the borrowing country, such as increases in international interest rates and increased costs of imports. Since the causes of such shortfalls are external, there is no place for conditionality here either.

Long-term loans for monetary reconstruction and stabilization

At the time of considering the Bretton Woods Agreements, it was noted that, for a poor country or one in reconstruction, there was a need for long-term loans to provide foreign exchange reserves as a basis for the monetary system, that is, as a backing for its currency. At the Inaugural Meeting of the Bank and the Fund in 1946, the World Bank was authorized to extend long-term stabilization loans for this purpose. This authority has never been used.

Under present policies, therefore, the IMF lends short-term for covering acute balance of payments disequilibria and the World Bank Group (and other multilateral development banks) provide long-term loans to finance growth. Other facilities exist which are essentially variations of these two.

55. Guillermo A. Calvo, "The Management of Capital Flows: Domestic Policy and International Co-operation", in UNCTAD, *op. cit.*, p. 70.

However, neither a short-term facility nor an adjustment loan, which is to be used for other purposes, provides for a developing country's need for foreign exchange reserves. Developing countries should, therefore, request long-term monetary reconstruction (stabilization) loans when the need arises, particularly if SDR allocations are rare or insufficient.

The Supply of Development Finance

The availability of external financial resources is of key importance to developing countries whose development prospects would otherwise be limited by their low level of foreign reserves. However, the situation regarding these flows gives cause for concern. Multilateral concessional assistance and low cost finance is of major importance, particularly for the welfare and growth of the world's poorest countries. There has, however, been a decline in net transfers from the World Bank. At the same time foreign bilateral assistance is declining.

In the case of bilateral aid, the prospects for improvement do not seem encouraging. Official bilateral assistance from industrialized countries has, in any case, a number of distinct limitations from the point of view of developing countries. Its distribution often reflects donor priorities with respect to achieving an increase in donor exports of goods and services or to wielding political influence in particular countries or regions.

Developing countries have been strongly urged to consider private capital flows as an alternative -- capital flows comprising mainly foreign direct investment, portfolio investment in stocks and shares, and funds raised by the sale of government bonds in Euromoney markets. These private flows, which were at about the same level as official overseas development assistance in 1989, have risen four times since then. However, they are largely concentrated on a small number of middle income developing countries, that is, around 30 out of 180 countries.

Whatever their destination, these private capital flows are no substitute for concessional assistance and are unsuitable for the purposes for which much of this assistance is needed. Private

transfers are made with a view to gaining short term profits, with little direct concern for promoting long-term development or focusing on projects or sectors that correspond to national priorities. Often they are highly speculative and transient, with severe consequences for financial and economic stability.

Clearly, more could be done to produce an enabling environment conducive to foreign direct investment, but this will require prior investment in human capital and essential infrastructure, all of which require financing.

Overall, therefore, developing countries which are not fully credit-worthy are simply not receiving the level or kind of external support that they need and on the right terms. Even credit-worthy developing countries have needs for low-cost capital which cannot easily be financed other than by concessional funds. Significant amounts of additional resources are required for investment in human capital, infrastructure, agricultural development and environmental conservation activities, to which private sources of capital are unlikely to make a significant contribution.

Bearing in mind the limitations and problems associated with bilateral aid and private capital flows, these are not adequate substitutes for multilateral financing provided on appropriate terms and conditions.

Financial transfers of the World Bank

In the course of the 1980s, the net lending of the World Bank ceased to grow and actually began to decline. In other words the net transfer of resources to developing countries -- that is loan disbursements less amortization and interest received -- became negative in the second half of the 1980s. Whereas the net transfer in favour of developing countries had been close to US\$ 3 billion in 1984, it dropped to a negative US\$ 5 billion in 1991.⁵⁶ By 1994, the net negative transfer -- extraction of resources from borrowing countries -- reached a formidable US\$ 8.4 billion.

56. Goran Ohlin, "The Negative Net Transfer of the World Bank", in UNCTAD, *International Monetary and Financial Issues for the 1990s*, Volume V, 1995, p. 1.

In some cases negative net transfers reflect a favourable situation, in which borrowers from the multilateral development banks (MDBs) have developed sufficiently either to avail themselves directly of market borrowing on favourable terms or have even become net exporters of capital. At the present time, however, the large negative resource transfers between the multilateral development banks (mostly the World Bank) and developing countries do not generally reflect such conditions. Most MDB borrowers today have not reached the point where large, extractive resource transfers can be justified.⁵⁷

Table 5
World Bank net transfers
Fiscal 1993 and 1994
(US\$ millions)

	1993	1994
Commitments (1)	16,945	14,244
Disbursements (2)	12,942	10,447
Repayments (3)	10,671	11,178
Net capital flow (4, equals 2-3)	2,271	-731
Interest received (5)	7,957	7,707
Net financial transfer (6, equals 4-5)	-5,686	-8,438

Source: *The World Bank Annual Report 1994*, pp. 11 and 176. Minus represents an inflow to the Bank.

57. Percy S. Mistry, *Multilateral Development Banks: An Assessment of their financial structures and Practices*, *Forum on Debt and Development*, The Hague, 1995, pp. 195-196.

Shortage of money has not been the reason for the slow-down in lending, especially in recent years. The 'headroom' -- that is, the permissible increase in net disbursements -- has been very substantial: at the end of fiscal year 1992 (from 1 July 1991 to 30 June 1992) it was US\$ 68 billion or 40 per cent of IBRD's lending limit.⁵⁸

The main reason for the negative transfer has been a slow-down in lending, due to factors on the demand side, two of which are of particular importance. First, there has been a weakening of demand in the case of some credit-worthy borrowers who found the Bank's loans too expensive or too slowly negotiated. But above all, the slow-down has been due to the rise of cumbersome impositions regarding macro-economic conditionality in adjustment lending and a host of new objectives and conditions relating to environmental protection, poverty alleviation, privatization, and other concerns.⁵⁹

Judging by the Bank's net borrowing plans, which are expected to be negative or marginally positive between financial years 1995 and 1997, it would appear that the World Bank does not expect to be providing any significant net transfer in the 1990s.⁶⁰

It should also be noted that a significant portion of the World Bank loans goes to Eastern Europe and the former USSR. It is possible that growing disbursements to these areas would be paid for by increasing net transfers from developing countries.

International Development Association finance

The International Development Association (IDA) has managed to expand gradually its commitments and disbursements in money terms and to preserve their value in real terms, thus enabling a

58. *World Bank Annual Report 1992*, p. 74, as quoted by Ohlin. *op. cit.*, p. 6.

59. For detailed analysis, see Ohlin, *op. cit.*

60. Mistry, *op. cit.*, p. 53.

sizeable annual net financial transfer of the order of US\$ 4.5 billion in favour of poor countries.

Nevertheless, mobilization of resources for IDA from developed countries has not been easy: each three-yearly IDA replenishment proves an extremely difficult exercise, and increasingly so. Furthermore, some of the donor commitments are in arrears.

Table 6
IDA net transfers
Fiscal 1993 and 1994
(US\$ millions)

	1993	1994
Commitments (1)	6,751	6,592
Disbursements (2)	4,947	5,532
Repayments (3)	366	420
Net disbursements (4, equals 2-3)	4,581	5,112
Interest (service charge) received (5)	398	417
Net financial transfer (6, equals 4-5)	4,183	4,695

Source: *The World Bank Annual Report 1994*, pp. 11 and 197.

It is hardly an exaggeration to say that IDA is in a serious crisis. Yet, IDA is of major importance for the welfare and growth of the poorest regions of the world economy. New ways of obtaining resources must therefore be found and it is time to reconsider the question of an SDR/IDA link.

Linking Special Drawing Rights and development finance

Almost since the idea of SDRs was mooted a few decades ago there have been suggestions that a part of any new issue of this

world monetary asset should be allocated to provide an assured and steady source of receipts for IDA. However, the resistance of some developed countries to tying monetary management and development finance has been strong, partly due to their apprehension that economic development needs would drive the rate of world monetary expansion, which in their view would almost inevitably lead to world-wide inflation. Northern reticence has therefore meant that the idea of an SDR-IDA link has been absent from discussions in recent years.

Nevertheless, actual conditions in the world economy suggest that deflationary forces predominate: there is a definite deflationary bias in the current international adjustment process. One contributory factor is the fact that developing countries' efforts to deal with their deficits by expanding exports are not matched by equivalent efforts of surplus developed countries to increase their imports: the resulting drop in commodity prices and the fall in the terms of trade has meant that restrictive deflationary macro-economic policies have been necessary in developing countries.

In the North the fear of inflation continues to prompt the continuation of broadly monetarist policies which have a deflationary impact. Indeed, there is evidence of an economic slowdown in Japan and the U.S.A. and sluggish growth in Europe. The average rate of price increases in five leading countries (France, Germany, Japan, U.K. and U.S.A.) amounted to less than 2 per cent in 1994 and is projected in a recent prognosis to stay under 2 per cent until 1998.⁶¹

These deliberate deflationary policies mean that, for some considerable time now, little heed has been paid to the specifically stated objective of the multilateral financial institutions to work to generate full employment.

However, the economic development of low-income countries can provide an additional important impulse to world trade and growth, and this could be achieved by providing a link, albeit

61. Findings and forecasts of the London Business School, as reported in *Financial Times*, 4 August 1995.

indirect, between the creation of SDRs and development finance. One means of doing so would be to introduce a two-stage mechanism which, while increasing the reserves of low-income countries, would serve as a means of providing development finance through IDA. As has been the case to date, the absolute size of additional liquidity to be created and individual member allocations would be determined on the basis of quotas. However, all except low-income countries would transfer their allocations to IDA. These transferred SDRs would thus constitute an additional source of development finance for low-income countries.

The Multilateral Debt Problem

High levels of indebtedness subject developing countries to a continual drain on their resources. Debts to the multilateral financial institutions are now an important part of this drain. A comprehensive solution for all debt-affected countries, most of which are low income and lower-middle income countries (about sixty), is therefore required, as stressed in The Report of the Non-Aligned Movement Ad Hoc Advisory Group of Experts on Debt of August 1994.⁶² The basic principle proposed in this Report for debt reduction is that it should follow the market price of debt, recognizing that debt discounts may mean that the market value of debt can be as low as 10 per cent of face value.

The latest OECD Development Assistance Committee's report on debt, while drawing attention to the budgetary problems at the creditor governments' end which this recognition would imply, does not challenge the validity of this principle.⁶³

Those opposing the reduction of debt owed to the multilateral financial institutions argue that any change in the status of multilateral debt obligations would be counter-productive. Their

62. NAM, *The Continuing Debt Crisis of the Developing Countries*, Jakarta 1994.

63. OECD, *Development Co-operation*, Report by the Chair of the Development Assistance Committee 1994, Paris, 1995, p. 70.

reasoning is that even a small increase in Bank borrowing costs, which would result from any change in this institution's preferred status, would have a significant impact on the cost of development finance, as well as on its availability, as debt forgiveness would reduce flows for new financing.⁶⁴

This thesis is seriously challenged by those who note that the rating agencies do not actually base their ratings of the multilateral development banks on financial ratio analysis. Rather, they appear to be basing their judgements solely on the strength of usable callable capital and the extent to which the guarantee provided by mainly the OECD governments ensures the safety of the outstanding debt of the multilateral financial institutions.⁶⁵ Spreads at which the multilateral development banks can borrow have actually gone down dramatically even though IBRD and to African Development Bank arrears have risen substantially. Moreover, the rating of the African Development Bank securities by the market and rating agencies has not gone down even when its financial performance and position relative to the other multilateral development banks is obviously inferior. It would therefore appear that markets regard usable callable capital, and the commitment of the major donor shareholders to support any particular MDB, as far more important than their actual financial condition, their arrears or their financial performance.⁶⁶

The much publicized leak of a document from the World Bank indicates that, albeit too slowly, the multilateral financial institutions are coming to recognize the seriousness of the multilateral debt problem and the inadequacy of present policies to alleviate debt burdens. There now seems more of a readiness to consider ways of dealing with multilateral debt. However, any delay costs the developing countries dear and it is therefore necessary to maintain and increase the pressure for prompt and adequate resolution of the problem.

64. Ibid.

65. Mistry, *op. cit.*, p. 73.

66. Ibid., p. 126.

Conditionality

The growth of conditionality

The Articles of Agreement of the Bretton Woods institutions do not mention conditionality. They quote the need for prudent use of borrowed funds and they set the principles on which the terms of repayment are based. But the concept of contractual agreements between the creditors (international institutions) and debtors (sovereign countries) on economic and other policies of the latter is something which has evolved subsequently, being facilitated in particular by the debt crisis which tied developing countries to the multilateral financial institutions.

Developing countries recognize the value of a sound policy environment and good governance. But their concern is that not enough care and caution have been exercised by the multilateral financial institutions in determining what are the right policies and conditionalities in a given set of circumstances.

Most developing countries have had disputes with the Bretton Woods institutions at one time or another over conditionalities and the controversy over the issue is such that it almost dominates relations between the multilateral financial institutions and the developing countries. The G-7 countries now use the multilateral financial institutions to set conditionalities in areas which go beyond financial matters strictly related to loan repayments. These impinge on aspects of policy which previously were always considered to be the domain of national governments. In the economic field disputes have arisen over stabilization policy and development policy.

With regard to stabilization, disputes have centred on the following matters affecting growth and development: the degree of the required restraint in demand and the corresponding degree of tightness required in fiscal and monetary policy; the speed with which stabilization goals can be reached; the timing and extent of the devaluation which may be necessary; the tolerable and feasible level of the budget deficit; the need and extent of import liberalization; the speed and extent of removal of price controls; the feasibility and extent of removal of budgetary subsidies; the

sequence of economic reform measures; the speed and degree of financial liberalization, domestic and external; and a sustainable target for the growth of output.

In development policy, the most frequent disputes have concerned: trade policy (free trade as against the need for protection and the level of protection that should be provided); interest rate policy (the degree of government influence); priorities in industrial policy; the role of the government in allocating resources; the use of incentives for achieving development targets; target rates of investment and growth; and the degree and speed of privatization.

As developing countries have reformed their domestic policies in recent years in line with Bretton Woods prescriptions and demands, in the direction of enhancing market incentives, providing greater incentives for exports and achieving a better balance in government budgets, the intensity of disputes over some economic conditionalities has lessened somewhat.

Nevertheless, the use of financial assistance as a means of inducing policy change in developing countries still seems to be emphasized as a policy objective by the Bank, to the neglect of its primary role of financing growth and investment.⁶⁷ Indeed, it is now widely argued that the *raison d'être* for multilateral lending is to facilitate the monitoring of debtor governments' policies on behalf of foreign investors and render it more easy to impose conditionalities.⁶⁸

The imposition of unwarranted conditionalities by the multilateral financial institutions is damaging the credibility and effectiveness of these institutions and presents a major obstacle to the expansion of multilateral lending and to a solution of the debt problem. It is, therefore, a key area for policy reform, to be based on an independent and impartial review of conditionalities and the

67. Yilmaz Akyuz, in UNCTAD, *International Monetary and Financial Issues*, op. cit., Volume IV, p. 125.

68. Dani Rodrik, *Why is There Multilateral Lending?*, World Bank, May 1-2, 1995, Washington, D.C.

nature of surveillance which is exercised by the Bank and the Fund over the economies of developing countries.

Monopoly over strategies

Whatever the disputes regarding particular economic conditionalities, there is an overriding problem concerning the undue uniformity of approach adopted by the Bretton Woods institutions in prescribing policies for developing countries under conditionality.

In fact the role and influence of these institutions in determining the national policies of developing countries is such that they have established almost a monopoly over policy formulation. As with all monopolies, this gives rise to inefficiency and abuse. The multilateral financial institutions are not prone to accommodating views coming from the South or elsewhere which are contrary to their own, even when such views are supported by strong evidence. They tend to adhere far too strongly, and for far too long, to a rigid set of policies which can inhibit recovery and damage the growth prospects of their developing country clients.

The Articles of Agreement of the Bretton Woods institutions recognize the need to act on three central issues, namely to promote the expansion of employment, to share between the debtor and creditor nations at least to some degree the burden of adjustment to economic disequilibria, and to avoid competitive currency devaluations among countries.

In practice, conditionalities have veered policy in almost the opposite direction. Adjustment policies operating under conditionality have not encouraged employment, but placed most emphasis on the need to curtail demand, thus tending to reduce employment. By far the biggest burden of adjustment has been placed on debtor countries. And advocating devaluations in most developing countries which are exporters of primary products has given rise to excessive aggregate production and a deep and long depression of commodity prices, which in turn has affected income and employment particularly badly in the poorest regions. To have encouraged commodity co-operation would have produced a better result both in economic and social terms.

Indeed, it is illuminating to note the contrast with respect to the conditionality applied in the case of reconstruction of Europe in the period immediately following the Second World War and that applied more recently to adjustment and development in developing countries. In the case of Europe, reconstruction was based on the principle of promoting close mutual co-operation among the participating countries in planning and implementation. Thus, the establishment of the European Payments Union (EPU), which had financial support from the United States, was explicitly aimed at increasing these countries' mutual trade and thus stimulating their growth independently of dispensable imports. Virtually no encouragement has been given by the governments of creditor countries and the multilateral financial institutions (MFIs) to assist co-operation among developing countries on matters of trade, finance and production, and indeed such efforts have been frowned upon and even discouraged.

African countries, in particular, have borne the brunt of the rigidity and uniformity of these Bretton Woods policy approaches, with no choice but to accept their disciplines. There is little evidence to show that these policies have yielded the promised results: in fact there is much evidence to the contrary. Indeed, there is no clear evidence that countries under conditionality are performing better than those without it. Particularly in Africa, the result has been the accumulation of an even larger burden of debt but without the creation of a commensurate capacity to repay. The relevance of these policies to countries with weak supply capacities and fragile socio-economic conditions is questionable.

'Ownership' of programmes

The multilateral lenders have been the authors of most structural adjustment and development programmes, particularly for smaller countries. But if programmes of stabilization or development are to be successfully implemented, it is essential that the borrowing country believes in the programme and sees it as its 'own'.

The present practice of the lending agencies preparing country economic programmes and imposing these upon borrowing countries should be discontinued.⁶⁹ Borrowing countries should be in charge of developing their own programme, designing and implementing policies according to their particular domestic circumstances, with the help of technical assistance from elsewhere if necessary.

Developing countries need to persuade the multilateral financial institutions and those that determine their policies that the 'ownership' approach is the way to proceed. The role of multilateral financing institutions should be limited to appraising adjustment programmes designed by the countries themselves. Possible disagreements between the borrowing country and the lending agency staff should be dealt with by a group of Executive Directors of the agency, consisting of both developing and developed country representatives.

Governance

The management structures and policy- and decision-making processes of the Bretton Woods institutions reflect the fact that they are founded on a share-holding basis, with power mainly in the hands of a few countries. These undemocratic structures and processes are responsible for distorting the functions of these institutions to the detriment of developing countries in particular. In assuming the right to govern the World Bank and to determine the Bank's operating policies, its major shareholders show little sensitivity towards developing countries and little or no responsiveness to the interests and needs of the great majority of the membership.

Yet, it should be noted that only a small proportion of the subscribed capital is paid up in cash. The developing countries, on the other hand, through the servicing of their multilateral loans,

69. Dragoslav Avramovic, *Conditionality: Facts, Theory and Policy*, WIDER, Helsinki, February 1988, p. 1.

which they are expected to pay in full, now cover almost the whole of the Bank's running costs and finance the Bank's reserve fund against possible losses. Developed country businesses meanwhile benefit substantially from the large proportion of procurement contracts they obtain in connection with Bank projects in developing countries.

The overriding influence of a few countries of the North on the policies of the Bretton Woods institutions has not prevented a number of important policy failures. This suggests the need for substantial changes in the structures of management and control of the MFIs, so that they assume functions and adopt policies that serve the interests of the whole international community.

Voting structures

In the longer run, a new institutional structure will need to be established for the Bretton Woods institutions which ends the developed countries' present monopoly of power and provides for the full participation of all members of the international community. In the meantime, interim measures are needed to reduce the political influence of these major shareholders over the inner workings of the Bretton Woods institutions, whose democratization is both a political imperative and an operational necessity and is long overdue. The goal should be to give the countries of the South a greater and more effective voice in the decision-making process of these institutions and, to the extent possible, to secure an unbiased resolution of the interests of debtors and creditors.

Such measures, with others suggested below, would also go some way to achieving greater transparency in the management and functioning of these institutions.

Changes in senior management

The current structures and processes have become inimical to efficiency and cost-effectiveness and a comprehensive overhaul of the governing structure and management practices of these institutions is required.

The Bretton Woods institutions are probably unique among international bodies in having almost all the key positions held by nationals of developed countries and coming from the same social groups and holding rather uniform policy views. Dominance by the North is achieved through the power of the purse, careful screening of staff appointments and direct influence over the internal policy decisions of these institutions. An analysis of the management of the MFIs and the relationship between the management and Executive Boards indicates that these institutions are too close to the treasuries and foreign ministries of a small cluster of countries. These institutions can hardly be considered independent, impartial interlocutors who are able to empathize with or represent the views and aspirations of the South with anywhere near the same commitment as shown in reflecting those of the G-7.

There is therefore a clear need for a major overhaul of the management and for changes in staff composition, to ensure greater representation of countries of the South especially in the senior management ranks of the institutions, thereby introducing different cultures and outlooks which reflect the diversity and pluralism of the world community.

Decentralizing the World Bank

A number of functions and activities of the World Bank, including the regional offices now located in the headquarters, should be decentralized to suitable locations in the respective regions, including to the regional development banks. By virtue of being closer to the countries of the respective regions, the professional and support staff of the regional branches would become more aware of regional problems and more responsive to regional and local needs, culture and values.

Certain aspects of lending are particularly suited for decentralization to the regions where they can better focus on the social sector (health, education, social service delivery), on projects involving regional public goods (e.g. advanced training and research, regional transport and telecommunications, macro-economic coordination), and on projects dealing with problems

concerning the regional commons (e.g. management of river basins and of shared natural resources) -- all of which contribute to regional integration and development.

These branches should be given the requisite autonomy and authority but, in order to avoid excessive policy leverage by the Bank, it will be necessary to have regional inter-governmental advisory bodies.

The Bretton Woods Institutions and the United Nations

The measures suggested above will not be sufficient to ensure the achievement of the important objective of greater policy coordination at the global level. The thorough reform of the voting structure and management of the Bretton Woods institutions would, of course, make them more open to wider discussion concerning their main functions. What is needed, above all, is a change in the relationship between the Bretton Woods institutions and the United Nations. This is an issue which causes tensions not only between these institutions, but also between developed and developing countries. To let such tensions continue to fester and to leave the problems unresolved is prejudicial to the United Nations and to the South, and eventually to the well-being of the whole world community.

Therefore, as part of the detailed and intensive process of deliberations on the UN reform that the UN General Assembly has embarked on, an Intergovernmental Expert Group should be established with a comprehensive agenda to bring into the open the existing dichotomies and to explore and make recommendations which would contribute substantially to ensuring that the UN and the Bretton Woods multilateral financial institutions work in greater harmony and within the same integrated policy framework.

Conclusion

This chapter has argued that there is a need for a thoroughgoing review of the function and policies of the multilateral financial institutions. The IMF must be subjected to full multilateral control and revamped in ways to ensure that it focuses on providing a proper framework for international monetary policy which ensures that the burden of adjustment is shared between deficit and surplus countries and that surveillance and disciplines apply to all countries.

Multilateral finance continues to have a vital role to play. The World Bank's role should be limited to the provision of concessional flows of resources in adequate volumes and on manageable terms to developing countries, while substantially reducing its development policy role which properly belongs to the UN with its broader-based mandate. Measures also need to be taken to reduce the Bank's extraction of resources from developing countries, and to increase rapidly net resource transfers to the South, in particular so as to fill the large gaps which have emerged geographically in the balanced flow of international financing for development on appropriate terms.

To deal with the concerns outlined above, a major and comprehensive intergovernmental process should be launched to reform the Bretton Woods institutions. Their mandates and functions will need to be reviewed and redefined, bearing in mind the need to restore some of their original but neglected functions. In the meantime, appropriate changes will be needed to democratize the governance and the internal decision-making mechanisms of the Bretton Woods institutions. There is also need for rigorous and continuous monitoring and evaluation of their performance.

The reform of the Bretton Woods institutions must be an integral part of the process of the reform of the United Nations. The deliberations on those related reforms must take place through democratic debate and genuine dialogue, rather than within the closed circle of major quota holders whose decisions are then presented as *fait accompli* to the rest of the international community.

PART THREE

OVERVIEW AND MAIN POLICY CONCLUSIONS

10

Essence of the Debate

The challenges the UN faces today and the issue of reform are complex, multifaceted and politically controversial subjects.

In the preceding chapters a number of the issues at stake have been analysed, but one of the central purposes was to emphasize their integrated nature and to indicate the need to adopt a comprehensive policy approach to UN reform.

This chapter highlights the central arguments which are germane to the ongoing debate concerning UN reform -- a debate which is to a large extent driven by reform proposals emanating essentially from the North. In so doing, it summarizes the underlying policy issues which are not always self-evident and which make the current debate and negotiations on UN reform so politically charged.

Current Debate on Reform in Perspective

The different proposals for reform and the associated political controversy surrounding the debates on UN reform reflect different visions and expectations of the UN and differing assessments of the nature of problems experienced by the Organization. These different perceptions are themselves rooted in differences among the large membership in terms of power, levels of development and political outlook regarding world problems.

The broad identifiable clusters of opinion regarding UN reform have tended to cohere into two major positions in the debate, the North and the South. Sometimes it would seem that the differences of opinion regarding the principles that should inspire the UN and the priorities that should orient its work are irreconcilable. The controversy is profound because propositions concerning the

reform of the UN also subsume a struggle for influence in and control over the Organization.

It is therefore essential to summarize the various underlying perceptions that inform the debate and to outline the directions of reform proposed by the respective groups.

United Nations critics in the North

At one end of the spectrum of Northern opinion are those who perceive the UN as the product of a liberal, internationalist worldview which, for them, is enough to condemn the organization. Moreover, those who espouse this view deem the organization to have been dominated for decades by the South, backed previously by what was a solid socialist bloc. They argue that the South's development demands, and its anti-colonial and anti-imperialist rhetoric, have helped to distort the UN structure, its agenda and policy outlook. They regard the UN as an unnecessary, even undesirable, institution, and one which is a financial and political liability. Being intensely hostile towards the UN, they suggest that it is time to close much of it down, or at least to carry out a radical overhaul so that the organization reflects better the new post-Cold War realities. One of the most important of these, along with uni-polarity, is the dominance of neo-liberal tenets, which put central emphasis on the market mechanism for managing most, if not all, matters in the socio-economic and related fields. Thus, the more 'interventionist' approaches adopted hitherto by governments and the international community in managing the economic and even the social sphere are deemed to be inefficient and deficient, and the need for governmental and intergovernmental initiatives -- other than to deregulate and liberalize -- is rejected.

The aim of those bent on such radical reform is to achieve changes which would give greater control over the organization to those they consider the main 'shareholders' thereby meriting greater influence. With a concomitant refocusing of the UN agenda and work, the organization would operate more explicitly in the service of their interests. The UN's parliamentary-type aspirations would be brought 'down to earth' by scaling down its

democratic procedures to suit the 'new' times and the new balance of world power.

The most militant and conservative exponents of this position also often hold parochial and isolationist views. Judging by how vociferous they are, these foes of the UN seem to be concentrated primarily in the United States, where the US Congress is their major vehicle for influence and power.⁷⁰ They exert consid-

70. The nature of this thinking has been well captured in a speech by the Permanent Representative of the US on the occasion of the presentation of busts of President Franklin Delano Roosevelt and Mrs. Eleanor Roosevelt to the United Nations Office in Geneva on 11 December 1995. The presentation ceremony was attended by the Secretary-General of the UN and other UN officials, and by representatives of permanent missions and of the international press. "... It is tragic and ironic that one of the principal threats to the United Nations comes from political elements in the very country which helped create it. There are now powerful forces in the United States which falsely view the United Nations as an enemy of my country's sovereignty. They revel in their ignorance of what the UN actually does every day on behalf of all nations and peoples. They marginalize its successes. They distort its failures for their own political ends. The forces of isolation and reaction, once on the fringe of our political system, are growing more powerful as they reach the mainstream and populate the halls of our Congress. Unbeknownst to the vast majority of the American people, the isolationists in Congress are slashing UN budgets by staggering amounts, taking the organization to the very brink of bankruptcy. They are turning our country into the international equivalent of a deadbeat dad, the absent father who won't support his children. By reneging on our treaty obligations to pay our assessments to the UN and its specialized agencies, they hope to weaken the organization's capabilities and to force our withdrawal from UN agencies. By cutting voluntary contributions to the UN, they weaken vital programs and betray our reputation as a compassionate nation. The isolationists in Congress tell us: the world is a place where nations should act alone to protect their interests as only they define them. The isolationists in Congress tell us: We must accept the human condition, no matter how poor, no matter how hungry and no matter how sick, because changing these things doesn't fall within their definition of 'national interest'. The isolationists in Congress tell us: We are willing to endorse actions which ignore the fragility of the planet and risk harming the environment. And the isolationists in Congress are willing to leave our world exposed to tyrants unchecked in their ambitions and halted only when their actions eventually trigger outrage by one or more nations"

erable influence on US government policy, and therefore directly and indirectly on the common platform of the North regarding the content and nature of the debate on UN reform. In particular, the US Congress has exerted a stranglehold on the UN, using the power of the purse.

The broad vision of the UN as conveyed by various statements and propositions of its critics from the North is summed up in Table 7.

Table 7

North critics' vision of the United Nations

The UN needs to be freed from impractical illusions and adapted so as to conform to present day realities regarding international power relations.

The UN also needs to work in harmony with and promote the new economic thinking which gives primacy to the 'rationality of the market' and encourages reliance on the market as a decision-making and resource-allocation mechanism in almost all spheres of life.

This requires that programmes which are 'outdated' because they do not correspond to the new, currently preferred approaches, or are considered inefficient under the new paradigm, be phased out. Thus, the UN is expected to abandon its long-standing efforts to modify the global economic status quo and to refrain from questioning the way that the world economy functions and its impact on the South.

The UN needs to be streamlined, and its bureaucracy and costs reduced significantly, taking into account what the principal contributors are willing to pay.

New and powerful actors on the global scene such as business, finance and the media should be allowed direct access to and given an appropriate place in the proceedings of the UN.

A number of detailed criticisms flow from this Northern view of what the future nature and functions of the UN should be. The criticisms most frequently voiced are outlined in Table 8.

Table 8

Complaints of the critics from the North

The UN is too costly, inefficient and unwieldy, both with respect to its intergovernmental and secretariat structures and proceedings. It produces an excessive amount of documentation, has an overly demanding calendar, an unfocused and overwhelming agenda, and is in danger of suffocation.

The democratic principle of 'one state, one vote' is unrealistic and anachronistic and, by not recognizing the hierarchy of power, discourages serious and committed participation by those 'states that count' and that are in a position to assume responsibility.

The application of the 'one state, one vote' principle results in the UN being too South-oriented.

The Organization's past work, especially as concerns the North-South development agenda, has proven misguided and should be jettisoned.

The UN should limit its activity wholly or principally to those areas where it has a so-called comparative advantage, e.g. peace-keeping and humanitarian activities, social development, and the environment.

Specific reform proposals put forward by this group focus essentially on management-type measures -- saving money by eliminating waste, trimming activities, and reducing staff and streamlining the bureaucracy and weeding out corruption.

Exhortations to reduce international bureaucracy and lower its cost while increasing its efficiency appeal to both governments that are hard pressed to balance budgets and save resources, and to public opinion which is hostile to 'excessive' bureaucracy. But,

while the objectives of efficiency and economy are laudable in principle, what matters ultimately is how these objectives are achieved. When used in an indiscriminate and mechanical fashion, as a purely administrative and fiscal exercise, they can do a great deal of damage and further discredit the Organization. When applied deliberately and selectively to attain given political ends by those who wish to avoid using the multilateral process to shape the UN to their vision, they can become an extremely dangerous tool.

Thus, the 'zero growth' budget in the UN has, over the years, been used to erode the Organization's capacity in the sensitive economic sphere and the trend continues, while certain marginal activities have, at least until very recently, been much less affected. At the same time, generous funding has been made available to allow a steady expansion of tasks in the IMF, the World Bank and the WTO, which are considered the most competent institutions whose current working paradigm and governing structures are regarded more favourably. Considerable pressures are exerted to ensure that any remaining activities by the UN in these fields reflect the new free market orientation and are supportive of the work of Bretton Woods institutions and the WTO.

Moreover, the current drive to ferret out inefficiency and corruption within the organization, while necessary, is being misused by those who regard themselves as the main paymasters in order to discredit the UN in a blanket fashion both in the media and elsewhere, and threaten withdrawal.

The reformists and the United Nations

There are others in the North who are more favourably disposed towards the idea of the United Nations and who champion reform of the UN but as a means to make it a more effective force for change in the world. This more moderate strand of opinion is expressed largely through independent reports which propound clear sets of policy proposals for reform which, in their view, would strengthen and revitalize the UN. These include significant institutional reforms within the UN and in the manner in which the UN relates to the Bretton Woods institutions and the WTO.

None of these reports have so far caught the public imagination or inspired a wide campaign for wholesale reform. Unfortunately, there is a distinct danger that two reports in particular will lend themselves to the opposite of what was intended and result in undesirable changes in the UN. These reports -- the Commission Global Governance Report *Our Global Neighbourhood* and the Report of the Independent Working Group on the Future of the United Nations (i.e. the Yale Group) *The United Nations in its Second Half-Century* -- are essentially inspired by the thinking common in the North. Ostensibly, however, they are supposed to reflect an international view, having been adopted and signed by distinguished groups of personalities from both the North and the South, and for that reason are likely to command the attention of the UN General Assembly in its debate on reform.

All reform proposals, however well-intentioned, have highly sensitive political implications for the South. For the South, all proposals need to pass the litmus test as to whether they will actually redress the current imbalance of power within the UN and that resulting from the Organization's relations with other multilateral institutions dominated by the North. All proposed changes also have to be judged by the extent to which they will contribute to improving global governance in the sense of bringing the policies and behaviour of 'actors' in the North, as well as the South, into the arena of multilateral scrutiny and coordination. The recommendations in the aforementioned reports, as in all others, must be judged in the light of these criteria.

But the most imminent danger lies in the strong possibility that, far from being adopted in their entirety and in the spirit intended by the authors, selected proposals will be given strong backing by powerful Northern protagonists in the debate. Other changes, which the authors deemed to be essential components of their original proposals to guarantee the democratic and truly multilateral intent of efforts to improve the UN contribution to improved global governance, would be left to one side.

The paragraphs below highlight some of the issues raised by certain of the themes and recommendations in the two reports.

Rationalizing the intergovernmental process and reducing the size of UN deliberative and decision-making bodies

Both of the reports referred to above argue that ECOSOC, one of the major UN deliberative bodies, has become too large and unmanageable, such that it is no longer conducive to effective exchanges of views, deliberations, negotiations or decision-making. The solutions proposed in order to improve the intergovernmental process involve replacing ECOSOC altogether by new bodies with a smaller membership, comprising reserved seats for economically powerful nations and rotating representation for others.

Among the countries being given a place as of right, developed countries of the North will predominate for the foreseeable future. Moreover, they are unlikely to yield their places easily if and when their ranking in terms of economic and/or other criteria drops. It will therefore be the 'right' of large numbers of developing countries to be frequently excluded from direct participation in the intergovernmental process. A reduction of numbers introduced through formulae for representation that are tilted against developing countries is clearly unacceptable to the South. It puts into question the legitimacy of bodies that ostensibly have universal membership. Moreover, it is difficult to conceive of principles other than democratic principles which can bind and inspire the UN in an effective and lasting manner.

A further reduction in the membership of supposedly global bodies may well give rise to competition and potential divisions among developing countries, making the South's collective action through NAM and G-77 more difficult, though at the same time rendering this all the more important. In the absence of a strong secretariat-like body to help develop common positions and to give representation to the spectrum of South opinion, resorting to limited membership could seriously undermine the one means that developing countries have to make their weight felt vis-à-vis the massive and entrenched power of the North. As it is, the position of developing countries is already becoming increasingly reactive and confined to damage limitation, in the face of Northern intransigence within the UN.

Similarly, reforms that detract from the powers and functions of bodies with universal membership undermine the multilateral nature of the UN and are to be resisted.

The difficulties of managing the intergovernmental process in an organization of approaching 200 members are, however, real, particularly when account is taken of the diversity and inequalities among the members of the international community. The political implications of this diversity cannot be ignored and, if the problems regarding the intergovernmental processes and procedures are to be tackled in a serious way, democratic principles must predominate.

Improving global governance

In discussing efforts to improve global governance, it needs to be recognized that, although the UN is a universal body with what purports to be an international remit, it is far from a body of global governance which pursues the collective interest. Indeed, the recent trend is even more in the direction of a UN in which the weak are governed by the powerful. Furthermore, the policies and actions of the countries of the North continue to be kept by fiat of the powerful largely beyond the reach or responsibility of the UN.

Proposals for improved global governance therefore need to start by recognizing this fact and to propose measures which will redress the situation. The implementation of only selected recommendations of the Global Governance and the Yale reports would reinforce rather than reverse the trend.

Moreover, a number of the proposals actually embody this danger. For example, the Yale Group proposes the introduction of a Social Council as a new body to take charge of faltering or failed states, in order to restore their social and political integrity, and their capacity to exercise 'full sovereignty'. Almost by definition these states are in the South. However, the institutional mechanisms proposed, and the powers they would wield, carry the danger of instituting a UN mechanism which, unless carefully bound by procedures and principles, would, in effect if not formally, give the North guardianship over these states. The proposal that the Social Council should work in tandem with the Security

Council raises critical issues. A Security Council, in which a few countries of the North still wield controlling power and influence, is not an appropriate mechanism for deciding the fate of developing countries. Even in the name of humanitarian assistance or the prevention of further disintegration or conflagration, intervention opens the way for incursion into the domestic affairs of countries of the South and massive policing. Decisions concerning which South states require 'intervention', and the measures to be taken to deal with the problems at hand, need to be taken within an institutional context and sets of procedures which do not allow room for the exercise of unilateral and unchecked influence by powerful countries and interests.

The purposes and functions of the Economic Security Council or Economic Council proposed by the two Reports give little assurance that the UN would have many prerogatives, if any, vis-à-vis the domestic and regional actions and policies of the powerful countries of the North. Thus, key aspects of the world economy, over which these nations exercise a major influence, would not be subject to the scrutiny and policy mandates of the UN.

Furthermore, when referring to the loss of national authority due to the process of globalization, there is a tendency to overlook the fact that the key actors and forces in this process are Northern transnational entities involved in business and finance which have substantial influence over and co-operate closely with their national governments. Moreover, insufficient recognition is given to the fact that the degree and nature of the loss of sovereignty differs markedly between states of the North and the South, a situation which has important policy and practical implications.

Until there is accountability on the part of states and other influential 'actors' in the North, global governance will continue to be asymmetrical, giving rise to suspicion and criticisms that the UN is giving cover to actions which dominate the weak, by controlling unstable areas in the South, and by securing for the North and its transnational corporations (TNCs), political, economic and environmental space in the South and elsewhere.

Abolishing organizations which no longer have a purpose

Both reports stress the need to abolish bodies that they consider to be redundant, or unable to fulfil their intended purpose, or which duplicate the work of others. The Global Governance Report explicitly suggests that, in addition to ECOSOC, UNCTAD and UNIDO and possibly also some regional commissions, have largely served their purpose, though little in the way of convincing evidence is marshalled to support the argument. These bodies are recommended for abolition, although this recommendation hinges on the introduction of new structures in the UN, which it is considered would provide a more effective and streamlined set of UN machinery, but which would facilitate the continuation of some of the functions of the supposedly redundant bodies.

However, among the institutions recommended for axing, UNCTAD and ECLAC have played a leading technical, intellectual and political role in researching and articulating the global development problem and in proposing alternative strategies and solutions. UNIDO has a technical function to fulfil of continuing importance, in view of the critical need for a more developed industrial base in most countries of the South. Recommendations to abolish such bodies are therefore likely to attract the support of the fervent critics of the UN, mostly from the North, for whom such institutions have been a constant source of irritation owing to the fact that they have often helped developing countries articulate their views and challenged the dominant economic order or to the fact that they have not converted sufficiently rapidly to the belief that free trade and the market mechanism will resolve most development problems.

The regional commissions in the South constitute a vital means of decentralizing the United Nations, giving greater voice to developing countries and providing the basis for a gradual strengthening of regional collaboration and coordination.

The practical effect of such institutional proposals being put forward to streamline the UN machinery would be to further erode and even eliminate the UN capacity to evaluate critically the global system, advocate the necessary changes, and inform and educate world public opinion. In such circumstances, the world

would become wholly dependent for analysis and data on a few North-controlled sources and institutions, and the UN would be expected to work in a what would more than likely be a submissive, even dependent, relationship with the Bretton Woods institutions and the WTO.

Making room for civil society

In the interest of enhancing the democratic nature of the UN, both reports as well as many other groups and individuals, express the need to bring 'civil society' more fully into the proceedings and structures of the United Nations. Some recommendations suggest that there should be an assembly or forum of representatives of civil society.

The reasons behind such ideas are various, though usually they suggest that this would bring more democracy into a body dominated by governments with different degrees of representativeness and would also bring in informed opinion on a range of issues.

Many of these ideas are not often carefully thought through. There is no consensus on what categories of civil society are being referred to: sometimes it is assumed that NGOs (non-governmental organizations) and CBOs (community-based organizations) are the bodies that should be given more direct or indirect representation. Nor is there any clear definition as to what constitutes an NGO.

Others clearly assume that private business interests -- including transnational companies and financial organizations, which are still mainly from the North -- are part of this category. But, compared with the resources and skills of NGOs and similar groups, their capacities are vast and they are among the more powerful actors in most societies as well as globally. Owing to its power, this sector is able to exercise very considerable influence over the policies of national governments as also over the policies the latter are expected to promote internationally. In some instances, individual company and business representatives actually form a part of national delegations on key issues. They are also

well positioned in influential and ostensibly independent advisory committees associated with the UN System.

The interest of TNCs in gaining more direct access to and greater presence in multilateral bodies is clear: it is negotiations in these forums which tend to determine the nature of global régimes which can circumscribe the activities of TNCs or, as is increasingly the case, give them greater scope and freedom of manoeuvre internationally, with a consequent reduction in the authority of national governments. To include these businesses which are endowed with massive resources and skills in the regular deliberations and policy formulation process in the UN is to offer them an additional, institutionalized channel to influence governments, the intergovernmental process and the Organization.

It is hard to imagine that at the present time there could be any meaningful civil society assembly or forum in the UN which included NGOs, CBOs, chambers of commerce, sectoral business groups or individual enterprises, all participating at the same level and on the same basis. In a world of unevenly distributed power and resources, it will be no easy matter to formulate the institutional means to achieve the end purpose in a fashion which does little more than improve access to UN proceedings and policy-making for already well-organized and adequately financed 'interest-groups'.

The numbers demanding representation or accreditation are likely to continue to grow rapidly. Clearly it is not practical to suggest participation for all those who wish to do so, something which in any case is less feasible for small local groups with little or no funds. Yet it is invidious, if not meaningless, to try to decide whether applicants are representative. And to devise a system involving the election of representatives from different countries and sectors would also be a difficult if not impossible task.

In conclusion, popular as it seems to be in many quarters, a civil society assembly or forum is not 'an idea whose time has come'. More to the point, would be to consider how NGOs or citizen's groups can make a useful input into UN deliberations on themes of special concern to them. But this too needs careful consideration to avoid compounding the current imbalance between powerful, well-funded bodies and less substantial, poorer

groups, or those who simply have no access or voice in international forums, as well as exacerbating the imbalance between the North and the South, the latter still being relatively poorly organized and represented at the NGO level.

A North consensus on United Nations reform?

The case of the moderates who advocate extensive UN reform in order to improve global governance in the interests of all has not been taken up either forcefully in a public way or inspired a strong and well articulated political campaign within the UN. It would seem, therefore, that moderates among governments are supporting management and cost-cutting measures with no clear strategic objectives corresponding to the sort of UN they desire. In effect, therefore, the moderates' support for economy measures and administrative cost-cutting operations strengthens the arm of the hostile critics of the UN who hope to achieve their broader policy objectives through such measures. To all intents and purposes, therefore, there is a seeming consensus among governments of the North.

Nor have the various reports putting forward policy prescriptions for a strengthened UN, including some government reports, mobilized public opinion. Indeed, public opinion has so far played little or no role in the current debate on the reform of the UN. On the whole it is little informed about the UN, and what information it does have comes largely from the scant commentaries in the print or broadcast media -- largely North-based or -sourced -- whose focus more often than not is on the more newsworthy aspects of the Organization's work, ignoring large areas of its activities. In fact, much of the media conveys negative perceptions of the UN, based on preconceived hostility to, or a misunderstanding of, UN work and capacities, with little attention given to the underlying policy issues and their interrelationships. Such a situation adds to the difficulty of mounting a public debate that contributes to the strengthening of the UN through reform. Much of the public therefore remains confused, if not disinterested.

Nevertheless, there is a segment of public opinion in the North and in the South, sometimes expressed through NGOs, which sees the vision of a democratic UN embodied in the UN Charter as a major achievement and as something to be enhanced rather than undermined. Efforts to reduce the disparities between nations and peoples by means of UN initiatives are regarded as being the best means for promoting justice, peace and well-being world-wide.

Though often well articulated, the views of these groups who are broadly favourably disposed to the UN do not get the same level of public exposure as those of the Organization's trenchant critics. Policy positions are considered of less interest in a media world where it is mainly 'bad' news or sensational news that tends to be considered newsworthy. The difficulty is compounded by the fact that it is inherently more difficult to promote a coherent, well publicized campaign by less organized and financially less well-endowed sectors of the public, especially when this runs counter to the policy line of the establishment.

As long as world public opinion is not roused, South governments continue to deal with the underlying issues in a low key manner, and Northern governments who believe there is an important role for the UN do not declare their position more publically and forcefully, the debate on the reform of the UN will continue to be skewed and restricted to matters of expenditure, overstaffing and efficiency.

Developing countries and reform of the United Nations

For developing countries, individually and collectively, the UN has been a source of hope with the promise of being a major force for positive change. Like many individuals world-wide, they consider that the transcendental value and strength of the UN lie in the provisions of its Charter, which set out its intended democratic, pluralistic and universal character, its mission to advance the interests of humankind as a collectivity and its mandate to take up global issues.

Moreover, the South considers the UN to be unique among international organizations in that it is mandated to pursue an

integrated approach to the causes and effects of global problems -- including the interrelationship between the Planet Earth and the life, society and economy it sustains -- in a manner which transcends particular and sectional interests. For developing countries such an approach and the manner in which it is to be pursued are considered of vital importance. In the absence of such an approach, the economically and politically weak cannot hope to see justice done to their needs and interests.

Nevertheless, the South considers the UN to be in need of fundamental reform to improve its functioning and its ability to realize its goals, not least because some of the values, principles and mandates it cherishes most are being eroded and purposefully undermined. Indeed, in the post-Cold War period, the UN is perceived to be under concerted attack, to the extent that its character and capabilities are now seriously threatened.

The current drive for reform by the North, with its central emphasis on reforms to achieve greater efficiency, to reduce costs and create rational structures that avoid duplication is seen by the South as harbouring a hidden agenda which has far-reaching political objectives vis-à-vis the UN. The energy with which these ends are pursued, under the pressure of an artificially generated financial crisis that has been precipitated by the wilful non-payment of dues by one of the major powers, gives force to the South's view that these reform imperatives mask efforts to unilaterally change the character and political thrust of the organization, and to subject it more fully to the fiat and interests of a few powerful countries.

The South's vision of the UN is summed up in Table 9 below. Compared with this vision of the role that the UN should play in the world and the manner in which it should function, the current situation as perceived by the South is disheartening. Table 10, which indicates in summary fashion what the South sees to be the main challenges to be faced when tackling the issue of UN reform, reveals the extent of developing countries' dissatisfaction regarding the current state of affairs.

While conscious of the fact that the aim of the North's drive for reform is to turn the UN into a body which can neutralize the political and economic initiatives of the South, the developing

countries have found it difficult to challenge these objectives openly or to mount effective counter-arguments to the criticisms and demands made by the North. On the whole, therefore, the South seems to be on the defensive, much like the UN staff, which feels embattled on all fronts.

Table 9

The South's vision of the United Nations

The UN Charter, its basic structure, mandate and principles, and its 'world development' orientation are basically sound and should be continued.

The UN as an institution should play a key role as a champion of peace, justice and equity. Thus, one of the main goals of the organization, stemming from its Charter, should be to seek improvements in international economic and political relations and to create an external environment that is conducive to the development of countries of the South. Moreover, closing the development gap would remove one of the central threats to peace.

Within, the UN should be fully democratic and pluralist, both with regard to its intergovernmental machinery and proceedings, and its secretariat and staff. Hegemony and special privileges for those able to wield power within the organization have no place in the UN since they are the very antithesis of what the UN stands for.

The organization should be funded adequately to carry out the various tasks corresponding to the objectives and agenda decided upon by member governments.

The organization should be staffed adequately by people selected for their excellence and motivation and who can work together in a truly international spirit for the achievement of the internationally-agreed goals, free from pressures exerted by powerful states.

Table 10

Challenges facing the United Nations: The South view

The UN Charter and its main principles have become eroded and are in danger. The North's economic and political power is used more openly than ever to undermine the Organization's democratic and pluralist character.

The UN is underfunded and understaffed in key areas of its work which correspond to the many ambitious mandates and objectives set for the Organization. In effect, it is not allowed to exercise its mandates fully nor is it given the institutional means to implement its agenda in a systematic fashion. The UN is therefore overburdened with issues and expectations, which give rise to allegations of incompetence and inefficiency.

The intergovernmental machinery and secretariat of the UN are increasingly under pressure from a few powerful countries of the North which are intent on dominating the Organization in order to determine unilaterally its agenda and policy outcomes.

The Organization's critically important role in the field of economic development is being denigrated by the North, which would like to preclude the UN from acting as a critic and an agent of change vis-à-vis the North-dominated global system. The North's aim is to divest the UN of its policy and research capacities in the economic sphere, and to give a more central role in the economic and development field to the Bretton Woods institutions and the WTO -- institutions which are North-dominated, undemocratic, and differ in basic policy inspiration from the UN.

The UN is effectively precluded from adopting an integrated and coordinated approach to global problems and to their root causes. This is partly due to the fact that it is prevented from having any jurisdiction or influence over those areas of economic and social policy, among others, of the industrialized countries of the North which have a global impact.

The Organization's inability to encourage the implementation of more appropriate people-oriented development policies in the South has resulted in increasing examples of 'failed development', giving rise to severe crises which then require the UN to devote substantial energy and resources to humanitarian and peace-keeping activities;

The UN is being transformed into an instrument of direct or indirect interference in the governance of volatile and unstable developing countries, which raises questions not only about the appropriateness or adequacy of the measures adopted but also about the responsibility for decision-taking on these matters.

Some of the concrete reform propositions of the North concerning the need for economy and efficiency can hardly be objected to in themselves and they are difficult to resist when taken in isolation and when financial crisis threatens. In fact, they need to be countered with similarly detailed proposals, but ones which are embedded explicitly in arguments of a broader political character regarding the nature and mission of the UN and its relations with other multilateral bodies.

However, lacking a strategy, the South resorts to stalling tactics in order to resist given reform proposals for institutional change. Often, therefore, it places itself in a negative light. While delaying the pace of change, this stance is unsustainable as by, applying the financial tourniquet to the UN, the North is gradually able to achieve its objectives.

11

Main Policy Conclusions for United Nations Reform

Policy Framework for Recommendations

To sum up, great caution has to be exercised when considering proposals to achieve reform of the United Nations. In addition to the obvious practical implications with respect to such matters as finance, staffing and smooth functioning of procedures, there is a need to consider the broader impact on crucial political aspects of the organization's life and *raison d'être*. In fact, the UN is under attack and must be vigorously defended against a determined unilateral drive to shape its nature and agenda.

The essence of the Organization's value to the world community is its remit to deal with world problems in a comprehensive manner, its global perspective and agenda, and its democratic nature. The UN, through its structures and procedures, is supposed to transcend national and regional interests and help to define and pursue the common interest. In the process, the UN should give voice to the poor, the disadvantaged and the powerless and their concerns and problems.

An organization reduced to a state where it reflects nothing more than the power relations prevailing in the contemporary world, and where the few with power can impose their will or act with impunity in flagrant disregard of the interests of others, cannot exercise the vigilance and determination necessary to identify, protect and promote the common interest.

Proposals to reform the UN must therefore be based on clear, comprehensive foundations which reflect the principles, procedures and structures which are most likely to facilitate the defining of common interests and their effective promotion.

Without clarity on this issue it will be impossible to redress the many weaknesses of the Organization. To reduce the issues at stake to those concerning accounting and levels of spending, and efficiency levels based on often irrelevant indicators, is destructive. And even those who purport to tackle only these supposedly practical issues in fact use this management-type discourse to mask their own more far-reaching political agendas.

The main recommendations put forward in earlier chapters, and which are summarized below, aim to provide a balanced and comprehensive programme of reform for the UN -- reforms which are intended to strengthen the organization so that it becomes a body able to live up to the expectations of the majority of the world's citizens.

Summary of Main Recommendations

United Nations finance

Financing and financial insecurity are at the root of many UN dilemmas and its chronic crisis. The lack of adequate finance is a major obstacle to the UN being able to perform adequately its many roles and activities. Excessive dependence on contributions from a few countries make it vulnerable to political pressures and efforts to hold the Organization to ransom. One of the most important steps towards renewing and strengthening the UN therefore involves policy decisions and specific measures to free it from this predicament. The following are the principal measures proposed above:

- Revenue discipline should be restored among member governments to ensure that they pay their assessed contributions on time and do not seek special privileges or impose conditions;
- The revenue to be raised should match the authorized budget, whose level should correspond to the mandates and programmes decided by governments;

- The ceiling for any country's contribution to the regular budget should be set at between 10 and 12.5 per cent;
- A thorough review should be carried out of the system of financing the UN by means of voluntary contributions, with the goal of gradually reducing its role until it is phased out;
- New means of financing the UN, including international levies and taxation, should be established to supplement and eventually supplant the core assessment system.

United Nations staff

One of the key assets of an organization is or should be its staff. In the case of the UN, which has a global leadership role, expertise and high performance are not enough: the staff should be committed to the work and objectives of the organization and should have an internationalist outlook and be characterized by their intellectual independence. The world community cannot rely on a UN staff that is subservient to a few powerful countries or which lacks the courage to raise issues for fear of displeasing those who claim to be the major shareholders in the organization. Successful reform and re-invigoration of the UN will, to a large degree, depend on the stature and quality of its international civil service.

Rather than reforms to effect cuts in staff levels, the overall objective should be to obtain the best international civil service and get the most out of staff engaged in what is a unique mission. To improve the staffing situation, measures to achieve the following will be required:

- Greater attention to staff training and professional on-the-job improvement;

- Improved recruitment procedures, with special attention to be focused on measures which would enable the organization to recruit high quality professional and leadership staff, including the UN Secretary-General;
- Greater diversity in the geographical origins of the staff, to be achieved in part by decreasing the weight that regular budget contributions play in determining a country's staff quota and by ending the practice of allowing key countries to appropriate specific strategic posts for themselves;
- Rules and structures to ensure that energy, thinking and enterprise are not stifled by excessive and rigid bureaucracy;
- Clearer definition of managerial and leadership roles in the UN organizational structures, so as to ensure that the UN and its staff are not reduced to a mere administration and management entity;
- Structures and procedures which protect the UN staff from unilateral pressures or manipulation by governments.

The General Assembly

That part of the UN which most epitomizes its democratic character and embodies its efforts to undertake a global mission is the General Assembly. The Assembly has, however, been progressively marginalized and downgraded both within the UN and more generally on the world scene. It has often abdicated its responsibility and acted as if powerless and inferior, so that it has not effectively exercised its broad-ranging mandates, including its full range of powers vis-à-vis the UN Security Council. At the same time, the changing geopolitical context has boosted the role of the Security Council, with the major powers increasingly resorting to this body in their efforts to police and establish order in unstable and volatile regions of the world.

One of the main challenges is to enable the General Assembly to take its intended central place in global policy-making. This will require giving it appropriate institutional, financial and staff support, as well as opening up its work calendar across the whole year. Without such changes the General Assembly will be unable to tackle in a full and integrated manner the complex global agenda relating to political, economic, social and environmental issues.

In order to institute effective checks and balances with respect to the Security Council, the General Assembly must begin to exercise its mandates. This would also contribute to the development of a more adequate approach to global problems, compared with current measures of expediency, and narrow, and in some cases military-like approaches reflecting strategies devised by the North.

In this context, it will be of special importance to reassert the General Assembly's mandates and roles with respect to peace-keeping and humanitarian affairs -- matters which have emerged as central preoccupations of the Organization. There is a need to both broaden the approach to these complex challenges and their underlying causes, and to ensure that there is more democratic participation in deliberations and decision-making in this field.

The Security Council

The emergence of the Security Council as the fulcrum of action in the UN reflects not only the large number of crises affecting many parts of the world, but also the fact that a few powerful countries act largely in concert -- a trend which accentuates the dominant and undemocratic character of this part of the UN machinery. The nature of the reforms of the Security Council are therefore of critical importance. In the interests of the world at large, and in order to prevent an unhealthy concentration of power in this UN body, the thrust of reform should focus on:

- Enhancing the representativeness of the Security Council;
- Ending the power of veto;
- Abolishing permanent seats.

The economic role of the United Nations

At a time when economic issues and how to structure and manage the global economy are emerging as central concerns, the UN is being deprived of institutional capabilities and roles in this vital area. Successive restructurings, the denial of human and financial resources, and changes and restrictions in the UN agenda and mandates are effectively disempowering the UN. Greater power and authority is being given to the Bretton Woods institutions and the WTO, which are more narrowly focused and also under the control or influence of a few major powers from the North. The international community is thus in danger of losing what constitutes the only multilateral institutional arrangements capable of independent integrated research, assessments, debates, policy-making and negotiations on major world economic issues.

It is a matter of strategic interest for the world community that the insidious erosion of the Organization's economic roles be halted. The UN must be allowed to assume the full range of powers and functions provided for it in the UN Charter, enabling all members of the world community to participate and to defend their interests in the field of socio-economic affairs. The UN research and policy-making role must be strengthened so that the necessary integrated and holistic approaches can be developed to deal with this increasingly complex set of issues, and so that gradually the necessary coordination of macro-economic policy at the global level can be achieved.

In particular, ECOSOC and UNCTAD require protection against forced erosion from within, as well as from demands for their outright abolition. Their stature at the intergovernmental and secretariat levels must be enhanced through a series of concrete

measures aimed at boosting their policy-making, negotiating and research functions.

Reforming the Bretton Woods institutions

As indicated above, the functions and governance of the Bretton Woods institutions and the relationship of these institutions to the United Nations are highly controversial matters. They are at the core of the controversy concerning the erosion of the UN and the prospects for its strengthening and reform. A few countries of the North unilaterally rule out any reconsideration of the relative roles of these institutions or of the relationship between them -- a stance which underlines the essentially undemocratic character of the Bretton Woods institutions and the international system.

This situation is unsustainable and the time has come to seek fundamental reform of the Bretton Woods institutions and of their mandates and to place their work and policies within the broader context and framework for development policy established through the work of the UN and its various mechanisms. This will also involve democratizing the governance of the Bretton Woods institutions and improving transparency at all levels. To deal with these concerns, a major and comprehensive intergovernmental process should be launched at the political level.

The United Nations and humanitarian assistance

Humanitarian assistance has emerged as one of the key activities of the UN and is closely linked to peace-keeping. It accounts for an important part of the UN's growing expenditures, infrastructure and human resources and absorbs an increasing percentage of official development assistance (ODA) resources. However, the increased need for humanitarian assistance often reflects the failure of countries to develop, itself a result of inappropriate domestic economic and social policies and the failure of the international community to help remove the root causes of such emergencies. Indeed, developed countries seem to consider that in responding to emergencies they are relieved from the obligation to help to

resolve the structural problems of poverty and economic backwardness in the South. Humanitarian assistance is now seen by some as a new form of 'white man's burden', seemingly extending alms from the rich in the North to the poor in the South, where all else has failed. In some cases, however, intervention on humanitarian grounds in the South, under the aegis of the UN, has served as a pretext for interference by powerful countries of the North in their efforts to maintain or build influence, using the UN as a cover.

These trends have serious implications for the character and future thrust of the UN and need to be scrutinized in the broader context of the reform and evolution of the Organization. Steps need to be taken to assert the General Assembly's primary responsibility for policy in humanitarian matters, and consideration given to establishing its own mechanism for this purpose, with the participation of all concerned.

The other central conclusion to be drawn is that the UN must pay much more serious attention to promoting development strategies and economic and social policies that will remove one of the principal underlying causes of the sort of catastrophes that are affecting more and more countries in the South.

Improving the United Nations' image

Part of the Organization's crisis is due to its poor image. Indeed, the image of the UN has been seriously distorted by hostile and often ideologically motivated criticisms which, because they dominate references to the UN in the world-wide media, are tantamount to an anti-UN campaign to undermine the organization and change its character and policy orientation. A more balanced and deeper discussion of UN work, problems and evolution is only possible if both the public and policy-makers are better informed.

To build and maintain a fuller awareness of the UN, disinformation and distortion need to be challenged and countered with facts, and with more in-depth analysis and wider perceptions and interpretations of UN matters. Developing countries will need to take the initiative in such efforts and play an active role.

Conclusion

With so much at stake, it is essential that developing countries now act as the protagonist to change the direction and content of the debate on UN reform. What the South was able to do in the 1960s and the 1970s in terms of shaping the international debate, inspired in the first place by just a very few countries, can and must be done again. The South also has the proven capacity to exercise intellectual leadership to provide new directions for the UN, both in terms of policies and institutions. Collectively, developing countries have the strength to counter the onslaught on the UN and to put forward their own proposals for wide-ranging reform to strengthen the Organization, so that it becomes a genuinely multilateral and democratic body in the service of all.

The preoccupations of the peoples of the South referred to earlier also find an echo in the concerns of large numbers of people in the North. There are many other common interests between the South and the North and world-wide problems of mutual concern such as financial instability, unemployment and increasing social disparities and tensions, environmental degradation, AIDS, drug addiction and narcotics trafficking, inner city problems and growing delinquency, anomie and marginalization. Indeed, large sectors of the North's population can also claim that they too suffer from failed development in their own societies, which is also aggravated by the more rapid pace of globalization. By taking a clear stand and speaking out on these issues, the South is likely also to mobilize the interest and support of progressive and internationalist opinion in the North, which may in turn be able to exert greater pressure on North governments to take a more positive, forward-looking approach to the matter of UN reform.