

*Improving Global Governance:  
Making global institutions fit-for-purpose in the 21<sup>st</sup> century*  
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It is a pleasure to join you here in Wellington, at Victoria University's Institute for Governance and Policy Studies. My thanks go to Professor Jonathan Boston for organising for me to be here, and to the University for hosting the event.

The topic of my lecture is *Improving Global Governance: Making global institutions fit-for-purpose in the 21<sup>st</sup> century*. I will

- comment on some of the complex challenges of the 21st century which cry out for effective global governance reflecting today's geopolitical and other realities; and
- examine whether global governance institutions – particularly in the areas of peace and security, economic governance, sustainable development, and climate change – have kept up with geopolitical changes and been able to tackle emerging challenges to ensure their continued effectiveness, legitimacy, and accountability.

My working definition of global governance will be that of Lawrence Finkelstein, former Professor of Political Science at Northern Illinois University and former Vice-President of the Carnegie Endowment for International Peace. Writing in 1995, in the first issue of the journal *Global Governance*, he suggested that global governance could be defined as “governing, without sovereign authority, relationships that transcend national frontiers. *Global governance is doing internationally what governments do at home.*”<sup>1</sup>

Finkelstein suggested that use of the term *global*, rather than that of intergovernmental or transnational, enables discussion to embrace consideration of the roles of both traditional state actors and nongovernmental actors. The latter category can include global NGO and civil society networks, the private sector, academic and research institutions, and the philanthropic foundations, all of which play a role in advocacy around global issues and in proposing solutions to cross-border challenges.

Finkelstein wrote of *governance* as an activity which includes not only setting rules and regulations, but also influencing behavior through the promulgation of principles and norms, the exchange of information, and the provision of assistance. He noted that: “*If we need to institutionalize it, we must say the institution in question is a means of governance, a governance organization or agency, or an actor in governance.*” The UN plays a very significant role in these respects through the large body of treaties, conventions, and review mechanisms for which its individual organisations are responsible.

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<sup>1</sup> Finkelstein, L.S. “What is Global Governance?” *Global Governance* 1 (1995), 367-72

## 1. Complex challenges requiring effective global governance

At the turn of this century, world leaders met in New York for the Millennium Summit. They pledged their continued faith in the United Nations, noting that: *“We reaffirm our commitment to the purposes and principles of the Charter of the United Nations, which have proved timeless and universal. Indeed, their relevance and capacity to inspire have increased, as nations and peoples have become increasingly interconnected and interdependent.”*

Indeed we do live in an era of unprecedented globalization and interdependence, where global public goods cannot be secured and protected by any one nation alone, and where emerging threats and challenges require co-ordinated responses.

The United Nations Millennium Declaration of 2000 acknowledged that a central challenge of this century is to ensure that globalization becomes a positive force for all the world’s peoples. Now, four years after the beginning of the global financial crisis, the risks posed by the way in which economic and financial integration has proceeded are clear for all to see.

At UNDP, we are acutely aware of how a crisis generated in the markets of the north spread to all corners of the earth, affecting the poorest and most distant nations which saw weaker demand and lower prices for their exports, higher volatility in capital flows and commodity prices, and lower remittances. Greater global financial stability is unlikely to be achieved in the absence of more co-ordination of financial regulation and oversight.

We see many other trans-border challenges too, which require stepped up global responses - from global warming, to the spread of pandemics, cyber-war and transnational crime, trade barriers, and the flow of refugees and other migrants.

All these challenges tend to hit those who have the least power and voice to influence solutions, the hardest. For example,

- Least developed countries and small island developing states have done the least to cause climate change, and can least afford the costs of adaptation and mitigation to it, but they are most at risk from increased climate volatility.
- The poorest countries also bear the brunt of the stalemate in the WTO’s Doha Round. They have the most to gain from accessing currently protected markets, and they have fewer – if any – cards to play in bilateral trade negotiations.
- Transnational crime, particularly trafficking in persons, impacts on poor women and girls the most – yet women are heavily under-represented in border control, police, and prosecution structures.

As the challenges requiring global responses have expanded, so too has the range of state and non-state actors seeking influence on global decisions.

The rise of the large emerging economies is of particular significance, as their economic power and reach provides a firm foundation for greater geopolitical reach. The Managing

Director of the IMF, Christine Lagarde, commenting at the 2012 annual meeting of the IMF and World Bank Group in Tokyo on the economic aspects of these trends, noted that, *“Economic power is spreading from west to east, and prosperity has begun to move from north to south.”*

The evidence of this shift of economic power is clear:

- According to the IMF, in 2007, emerging markets accounted for 25 per cent of GDP and seventeen per cent of world debt. By 2016, they are expected to produce 38 per cent of world output and account for fourteen per cent of world debt;
- UNCTAD’s analysis shows South-South trade increasing dramatically, growing on average by twelve per cent per year from 1996 to 2009, which is fifty per cent faster than the growth in North-South trade, and now accounting for twenty per cent of global trade;
- Countries of the South also dramatically increased their share of global inward foreign direct investment, from twenty per cent to fifty per cent of the total between 1980 and 2010.

UNDP’s next Human Development Report examines the rise of the South and the implications of that for human development.

For example, alongside the growth in the size of developing country economies, there is significant growth in South-South development co-operation – not only in the form of grants, technical assistance, and loans, but also through the exchange of knowledge, innovation, and best practice.

In a recent paper, however, Professor Robert Wade of the London School of Economics issues a warning that the world may be moving towards “multipolarity without multilateralism”, as “economic weight and influence in governance are different things”, and that established states may not wish to compromise with newcomers – and vice-versa<sup>2</sup>.

Without stronger and more representative global governance institutions, emerging powers may look increasingly to pursue their interests through alternative – regional, bilateral, or unilateral – mechanisms.

Calls for reform of international institutions generally highlight the inconsistency between the current structures which reflect the economic and political realities at the end of World War II, and the vastly different realities of today.

So how are global governance institutions performing currently, and what needs to change?

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<sup>2</sup> Wade, R.H. “Emerging World Order? From Multipolarity to Multilateralism in the G20, the World Bank, and the IMF” *Politics & Society* 39(3) (2011): 347- 378

## 2. Ensuring global governance institutions are fit-for-purpose in the 21st century

It is not difficult to draw up an inventory of global institutions and mechanisms which are struggling to reach decisions:

- The veto power in the UN Security Council can be a block to decisive action.
- The annual meetings of the Conference of the Parties (COP) to the United Nations Framework Convention on Climate Change have often struggled to reach agreement.
- The UN Commission on the Status of Women failed to produce an agreed outcome this year.
- The Commission on Sustainable Development ended its nineteenth session, in May 2011, unable to agree on policy decisions on practical measures to advance chemical and waste management, transform transport and mining practices, and establish a long-awaited 10-Year Framework of Programmes for sustainable consumption and production patterns.
- The Rio+20 UN Conference on Sustainable Development reached a consensus among member states which fell well short of the level of ambition hoped for by those who want to see decisive action.
- Negotiations in New York on the outcome document for the Fourth UN Conference on Least Developed Countries, LDC-IV, last year failed to reach agreement, and required late night compromise to be reached in Istanbul.
- The WTO Doha Development Round launched in 2001 is stuck.
- Negotiations on the Declaration of UNCTAD XIII, the quadrennial UNCTAD conference, which was held in Doha in April this year, appear to have been particularly acrimonious.
- The IMF quota reform negotiated in 2010 still has to be accepted under the rules requiring 85 per cent of the voting power to approve it.

In some cases, the reasons for paralysis, minimal outcomes, or failure to reach agreement are structural – as with the veto in the UN Security Council, and with other bodies where agreements require full consensus. But also at play in general are the changing geopolitics of our times, as the relative power and economic balances change, and the voice of the South demands to be heard as never before. Multilateralism needs goodwill and dialogue across groups to be successful, but that is not always to be found in abundant quantities.

Notwithstanding the difficulties, the United Nations with its universal membership enjoys enormous legitimacy and continues to have great convening power.

In late September, more than 100 Heads of State or Government and seventy Deputy Prime Ministers or Ministers participated in the General Debate of the 67<sup>th</sup> UN General Assembly. High-level meetings, formal and informal, were convened on a wide range of pressing issues from the food and security crisis in the Sahel to events in Somalia, Democratic Republic of Congo, Syria, and Yemen, and on important areas in development such as expanding the rule of law, achieving education for all, scaling up nutrition, and preventing maternal deaths.

In his closing remarks in the General Debate, the President of the General Assembly, noted that “this Organization will only be as strong as the membership chooses to make it.”

The UN membership of course is composed of member states – while the UN Charter begins with the words: “We the Peoples”. Increasingly the UN’s Secretariat, agencies, funds, programmes, and treaty bodies are interacting directly with civil society networks and private sector organisations with a shared vision for what a better world could be. These non-state actors can also be powerful voices in moving global agendas forward, including perhaps in the future on reform of global governance institutions.

Let me now discuss some of the multilateral institutions and processes in a little more detail, looking at where reform could usefully occur, and at where it already has with some success.

#### *A. The UN Security Council*

The conflict in Syria and the stalemate in the Security Council over how to address it make the issue of reform of the UN Security Council a timely one. Around the world, people are exposed to media reporting of the human toll of the Syrian crisis, and are asking why the UN cannot act to protect innocent civilians. The same questions were asked about the inability of UN peacekeeping missions to act in Rwanda and Bosnia in the 1990s.

Discussion on reform of the Security Council has proceeded in fits and starts for years, with a focus on two issues:

- the out-of-date membership structure, and
- *the question of the veto* held by the five permanent members, which is a key concern in relation to decision-making now over Syria.

New Zealand opposed the veto power from the time of the writing of the UN Charter. At the General Assembly in September this year, the Minister of Foreign Affairs called on the five permanent members of the Security Council to accept restrictions on the use of veto voluntarily, noting that the veto was originally intended only for the protection of vital national interests. Murray McCully was one among many at the General Debate this year who highlighted the importance of ongoing revitalization of the UN, including reform of the Security Council, for the future credibility of the organization.

It is seldom that those holding power voluntarily cede it, which has always made reform of the veto power a tall order. Discussion on the expansion of the Security Council so that it reflects today’s geopolitics, however, could make more progress.

New Zealand itself is seeking a non-permanent seat on the Security Council for 2015–16. The elections for these seats are hard fought, because of the desire of many member states to play a role in the UN’s most powerful organ. That organ could be more effective with reform.

That reform, when it comes, needs to be designed for flexibility, so that twenty years from now the global community will not need to repeat the current discussion about the Council not representing geopolitical realities.

### *B. The Human Rights Council*

An example of a successful UN reform in my view has been the creation of the Human Rights Council. It replaced the sixty-year-old Human Rights Commission, which had suffered from a lack of credibility.

The new, smaller Human Rights Council introduced the *Universal Periodic Review* as a mechanism for peer review of the state of human rights in member states. All member states report to the Council accordingly, and the views of non-state actors are heard. UNDP has played a role in supporting countries to prepare their reports, and to follow up on the recommendations made by the Council. This mechanism is having a positive impact on upholding human rights.

### *C. Institutions of financial and economic governance*

The global financial crisis of the past four years has highlighted the absence of credible and strong global mechanisms for co-ordination of responses.

In this vacuum, the pre-existing G20, designed for finance ministers and central bankers, was ‘upgraded’ to a higher level when President George W. Bush called for a meeting of G20 leaders for the first time in 2008. While the G20 is an informal inter-governmental grouping, any summit exclusive to leaders of many of the world’s leading economies is of global interest. From the outset therefore, the G20 faced challenges, as others affected by agreements it reached lacked a direct voice in the decision making. A Global Governance Group (3G) was convened by Singapore at the UN in New York to express the views of smaller states about how to engage with the G20<sup>3</sup>. New Zealand is associated with this group.

While it was clear from President Obama’s statements at Pittsburg and from the related *Communique* that the G20 nations should see the grouping as the premier vehicle for their economic co-ordination, “their” has often been dropped in references to the group, leading to it being seen as positioning itself as the world’s premier vehicle for economic co-ordination. The agreements it has reached appear to have come close to directing the work of formal multilateral institutions which have their own governance structures.

Robert Wade, wrote, for example that G20 leaders “boldly announced their intention to make themselves the global economic steering committee.”<sup>4</sup>

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<sup>3</sup> Chowdhury, I.A., “The Global Governance Group (3G) and Singaporean Leadership: Can Small Be Significant?” Institute of South Asian Studies. Working Paper, No 108, 19 May 2010

<sup>4</sup> Wade, R.H, *ibid.* pg 355.

He points to the communiqué of the second summit (London, April 2009) in which G20 leaders stated that: *“We are determined to reform and modernize the international financial institutions to ensure they can assist members and shareholders effectively in the new challenges they face. We will reform their mandates, scope, and governance to reflect changes in the world economy and the new challenges of globalization, and that emerging and development economies, including the poorest, must have greater voice and representation.”*<sup>5</sup>

Leaving aside the irony of the G20 calling for greater voice and representation for the poor, Robert Wade notes that G20 critics have questioned what authority G20 leaders have to supersede the governing bodies of the IMF and the World Bank, and to call not only for a change in voting shares, but also to designate, broadly, what the details of the change should be.

Years before the G20 called for reform of the Bretton Woods institutions, the outcome document of the International Conference on Financing for Development in Monterrey in 2002, recognized important efforts to reform the international financial architecture, and called for more “transparency and the effective participation of developing countries and countries with economies in transition”.<sup>6</sup> This was echoed at the 2009 United Nations Conference on the World Financial and Economic Crisis and its Impact on Development.

In 2010, both the International Monetary Fund and the World Bank agreed on reforms to their governance structures, to make the organizations more fit-for-purpose in the 21<sup>st</sup> Century.

For the IMF, the reforms agreed include a shift of six per cent in quota shares from over-represented countries to under-represented member countries, including dynamic emerging market and developing countries. This will have the effect, when implemented, of placing Brazil, China, India, and Russia for the first time all among the top ten IMF shareholders.

The USA alone has accounted for around seventeen per cent of votes at the Fund. It has been the only single country to have effective veto power on all major decisions at the Fund, including on approval of the quota reform which requires 85 per cent of the total voting power to be reached. Some have suggested that the US election campaign has accounted for the delay in completing the IMF reform – if so, there will be an expectation that the reform moves forward soon.

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<sup>5</sup> 2 April 2009, London Summit – Leaders’ Statement. Accessed at: [http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/Highlights/G20\\_Financial\\_London\\_Communique.pdf](http://www.wcoomd.org/files/1.%20Public%20files/PDFandDocuments/Highlights/G20_Financial_London_Communique.pdf)

<sup>6</sup> Monterrey Consensus on Financing for Development (2002). Accessed at: <http://www.un.org/esa/ffd/monterrey/MonterreyConsensus.pdf>

The US shareholding does not change significantly with the reform, as it would keep its veto power. Rather it is the European Union member states who are mainly losing shares and seats at the IMF Executive Board.

For the World Bank, reforms in 2010 expanded on previous reforms agreed upon in 2008. These relate not only to increasing voice and participation, but also to increasing transparency and access to information, promoting accountability and good governance, improving risk management, and reviewing internal governance.

The G20 also spurred the creation of the Financial Stability Board, following the 2009 London Summit, where they agreed to “*establish a new Financial Stability Board (FSB) with a strengthened mandate, as a successor to the Financial Stability Forum (FSF), including all G20 countries, FSF members, Spain, and the European Commission*”. At the G20 Los Cabos Summit in June 2012, Leaders endorsed the recommendations and the revised Charter of the Financial Stability Board (FSB) which includes strengthened governance, greater financial autonomy and enhanced capacity to co-ordinate the development and implementation of financial regulatory policies.

Countries of the South have also called for the UN to have a strengthened role in global economic governance, including through a more robust Economic and Social Council (ECOSOC) and better co-ordination between the UN, the BWIs, and the G20.

#### *D. Economic and Social Council (ECOSOC) and new governance structures for sustainable development*

In 2005, then UN Secretary General Kofi Annan, issued a report, *In Larger Freedom: Towards development, security, and human rights for all*, in which he highlighted the need for reform to strengthen the UN system, including ECOSOC.

There he proposed the establishment of Annual Ministerial Review (AMR) assessments of progress towards agreed development goals, particularly the MDGs, and the high-level Development Co-operation Forum (DCF), as new, formalized mechanisms of ECOSOC.

Following the 2005 World Summit at the UN, the General Assembly adopted resolution 61/16 on the “Strengthening of the Economic and Social Council”, recognizing ECOSOC as a “principal body for co-ordination, policy review, policy dialogue, and recommendations on issues of economic and social development”, and mandating the AMR and the DCF.

Both of these mechanisms, launched in 2007, have given ECOSOC greater weight: the former raising the level of debate on international development to the ministerial level, and the latter ensuring that a broad range of actors can engage with each other in a high-level dialogue on development co-operation.

As a UN platform, the DCF has been viewed as more inclusive than the aid effectiveness fora associated with the OECD’s Development Assistance Committee.

But now those OECD-associated fora are also being transformed with the outcome of the Fourth High Level Forum on Aid Effectiveness, which took place in Busan, and the launching of the Global Partnership for Development Effectiveness. It aims to provide a new platform for dialogue between the DAC donors and developing countries, including the South-South development co-operation partners.

Along with the reform of ECOSOC, agreement was reached at Rio+20 to establish a universal membership, intergovernmental, high-level political forum for sustainable development at the UN. It should build on the strengths, experiences, resources, and inclusive ways of working of the current Commission on Sustainable Development, which it would replace. An intergovernmental process will define the features of the new forum, which is expected to convene at the beginning of the 68th session of the General Assembly in September 2013.

UNDP advocated in the lead up to Rio+20 for a new Sustainable Development Council, either to replace ECOSOC or as a stronger subsidiary body to it than the existing Commission has been. We believed that it could benefit from having a peer review mechanism, to encourage countries to act on sustainable development in line with the commitments they make.

This is a question of relevance and effectiveness. The collective of member states is making too little progress on ensuring the future sustainability of our world's ecosystems. Fine words in outcome documents need to lead to action. It is depressing, yet at the same time encouraging, that the dynamism around sustainable development at Rio+20 was coming for the most part from sub-national governments, NGOs and civil society, and the private sector – notwithstanding some impressive actions by individual member states. That is why it is becoming so important for the voices of non-state actors to be heard in global governance fora.

#### *E. Global Climate Governance*

One of the most visible 21<sup>st</sup> century challenges is that of climate change. Co-ordinated action to combat global warming is badly needed, and the risks from failing to tackle the problem effectively are high.

Multilateral action centres on the 1992 United Nations Framework Convention on Climate Change and its associated Kyoto Protocol (1997), both of which have been ratified by almost all nations. The Bali Roadmap from COP-13 in 2007 and the Durban Platform from COP-17 last year have attempted to set firm timelines for reaching agreement on further measures for a new global agreement.

Negotiations have been far from smooth, with many items over the years postponed for consideration at future sessions, and climate negotiations often seeming to fail, or be held hostage to a myriad of interests and positioning. As with a WTO round, consensus is required for decisions to be reached – or at least near consensus as established at Cancun.

To any casual observer, the negotiations seem protracted, while the need for action becomes ever more pressing. It would be a tragedy for future generations if today's leaders and decision makers prove incapable of taking the bold decisions which are necessary to stop catastrophic and irreversible change to the world's climate.

The limited accountability mechanisms available for agreements reached, and the lack of meaningful consequences for non-compliance, have also been raised as obstacles to progress on a new climate agreement.

Another concern around the global climate change architecture is that of fragmentation. Both within the UN and beyond, there are a number of new institutional mechanisms, and platforms for negotiation. Critics of this fragmentation have argued that agreements reached by only some countries are inherently flawed.

Meanwhile, at the sub-national level of governance, we see useful developments – for example with cities co-operating as part of the C-40 network to bring about local change through policies for transportation and urban planning which will both reduce emissions and encourage adaptation to the climate change already affecting our lives.

Also, there is room for optimism associated with the expected large increase in the volume of climate finance available. Some of the ten billion USD per year which developed countries pledged at Copenhagen for low-emissions and climate resilient development from 2010 to 2012 has been delivered. By 2020 developed countries have committed to raising US\$100 billion in climate finance annually. That would create an even larger base from which to leverage large scale private investment for climate change adaptation and mitigation in developing countries.

UNDP has long supported countries to overcome barriers to attracting investment. We are now applying this experience to help countries build the capacities necessary to access climate finance and navigate through the plethora of diverse funding sources. Overall, climate finance is now accessible through more than fifty international public funds, sixty carbon markets and six thousand private equity funds.

Without strengthened capacities too many localities and countries will be left out, unable to tap the upfront resources needed to leverage private investment and put sustainable development into practice.

## Conclusion

In providing a detailed account of some of the successful, and at times less successful, reform efforts of multilateral institutions and processes, I have considered different elements which I believe are essential to make global governance institutions 'fit-for-purpose' in the 21<sup>st</sup> century.

- First, *efficiency* and *effectiveness*;  
I have argued that global institutions are critical for co-ordinated action to tackle the most pressing challenges of our era – whether they be climate change, peace and security, or economic volatility. Outdated structures and functions, such as the UN Security Council veto, can undermine efficient and effective co-operation.
- Second, *legitimacy* and *transparency*;  
I have suggested that much more can be done to ensure that global institutions are representative and inclusive, and that they function in a manner which reflects the geopolitical realities and economic dynamics of the 21<sup>st</sup> century. The ongoing reforms at the IMF, the WB, and other institutions, are moving in the right direction for greater inclusiveness and transparency. A reformed ECOSOC which attracted finance ministers to its proceedings would also give the UN a more effective forum and voice on economic and financial issues.
- Finally, *accountability* and *fairness*;  
Here the key question is whether global institutions give voice and decision-making power to those most impacted by global challenges – often the poorest and most vulnerable, and whether recipients of support are enabled to hold these institutions to account. Not enough attention is being placed on these issues, but increasingly global civil society and others will demand that reform agendas take them into account.

Overall, there can be no doubt that progress has been made to enable global institutions to be more fit-for-purpose. So far, however, not enough has been done across the three dimensions I have outlined to ensure optimal functioning of a range of institutions at a time when unprecedented cross-border challenges require improved global governance.