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SUMA CHAKRABARTI AND IEVA VILKELYTE

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Chapter 18

Reviving Multilateralism and Improving Global Governance—Responding to New Global Challenges

Suma Chakrabarti and Ieva Vilkelyte

Introduction

The multilateral system, since its establishment after the Second World War, has been a leader in many of the most critical global issues of the twentieth century, including poverty reduction, economic prosperity and peace and security. However, the effectiveness of multilateralism and global governance has increasingly been questioned because, for a growing number of emerging market and developing economies (EMDEs), the system and the underlying institutions no longer address their needs in relation to today's most pressing issues such as inequality, trade, jobs, health, climate and technological change.

This chapter attempts to explain the diminishing effectiveness of the multilateral system and its corresponding institutions by:

1. Defining multilateralism and global governance, providing a brief overview of the history of the multilateral architecture and clarifying its purpose and objectives.
2. Investigating the effectiveness of the current global governance system by attempting to answer whether the most pressing issues for emerging market and developing economies are being addressed. To answer these questions, a sample of some of the most pressing global challenges/topics highlighted in this book will be examined through a global governance lens: inequality (Chapter 7), climate change (Chapter 9), technological progress (Chapter 11), jobs and the future of work (Chapter 12) and productivity (Chapter 13).
3. Assessing the voice of emerging markets in the global governance system and providing recommendations for loudening their voice.

Defining Multilateralism/Global Governance, Its History and Purpose

For the purpose of this chapter, multilateralism is defined as 'operating through architectures of organizations, institutions, and bespoke mechanisms, often based in treaties and international law, and grounded, fundamentally, in the UN Charter' (Moreland 2019). It is generally seen as a system or an architecture to promote coordinated action by several countries (three or more). Examples of multilateral institutions that make up the multilateral system include:

- International financial institutions such as the World Bank Group (International Bank for Reconstruction and Development [IBRD], International Development Association [IDA], International Finance Corporation [IFC] and Multilateral Investment Guarantee Agency), International Monetary Fund, regional development banks—African Development Bank (AfDB), Asian Development Bank (ADB), Development Bank for Latin America (CAF), Inter-American Development Bank (IADB) and European Bank for Reconstruction and

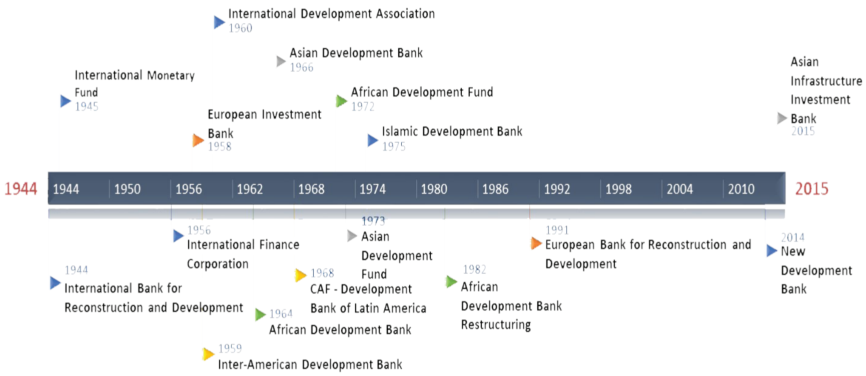
Development (EBRD)—and the European Investment Bank (EIB), Islamic Development Bank (IsDB), Asian Infrastructure Investment Bank (AIIB) and New Development Bank (NDB).

- UN entities such as the United Nations (UN), United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), United Nations Children's Fund (UNICEF) and World Health Organization (WHO).
- Special Purpose institutions such as Gavi, the Vaccine Alliance (GAVI); Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM); Global Environment Facility (GEF); Green Climate Fund (GCF); and Network of Central Banks and Supervisors for Greening the Financial System (NGFS)
- Intergovernmental organizations such as OECD, World Trade Organization (WTO) and the G7 and G20.

This chapter concentrates heavily on those multilateral institutions—the international financial institutions, the UN development organizations and special purpose vehicles—that are most focussed on thematic and country policy work and lending programs in EMDEs.

The end of World War II (including its closing months) saw the establishment of multilateral institutions that continue today to make up the bedrock of the current multilateral system. The first organizations making up the current system, the IMF and IBRD, were established in 1944 at the Bretton Woods Conference (Figure 18.1). Soon after, in 1945, the United Nations was established. As new development needs arose, new organizations came into being in the following decades. These included, as part of the World Bank Group, the IFC, which focuses on the private sector in developing countries, and the IDA, which lends to the poorest developing countries. Several regional development banks were established in the following decades starting in 1959 with the creation of the IADB, then the AfDB in 1964, the ADB in 1966, and then, following the fall of communism and rejection of the command economy model in Eastern Europe and the Soviet Union, the EBRD in 1991. The increasing economic influence of emerging markets and their desire to have corresponding influence in the multilateral systems has led to the more recent establishment of the AIIB and the NDB.

Figure 18.1: MDB establishment timeline



Source: Authors

For this chapter, global governance is defined as 'the totality of institutions, policies, norms, procedures and initiatives through which states and their citizens try to bring more predictability, stability and order to their responses to transnational challenges' (UN Committee for Development Policy 2014). The general purpose of the multilateral system has been to provide leadership in many of the most critical global issues of the twentieth century, including poverty reduction, economic prosperity and peace and security. The evolution of the multilateral system and organization reflects the changing needs and influence of different countries.

Effectiveness of the Current Global Governance System

This section assesses the effectiveness of the current global governance system. It does so by further looking at five topics highlighted in previous chapters—inequality, jobs, climate change, technological progress and productivity—and seeks to answer the question 'is the multilateral system working?' in regard to each of these issues. For each of these topics, judgements are based on discussions with and commentary by those knowledgeable about the multilateral system around the questions of:

- the extent to which these trends are embedded in dialogue with shareholders;
- the extent to which global/multilateral institutions are tackling these in coordination with EMDEs;
- the extent to which multilateral institutions operate as a system (within the current multilateral/global governance architecture) and the corresponding business model; and
- the extent to which the needs of most countries and people are being met.

Inequality

The two facets of inequality, within country and between countries, have experienced diverging trajectories since the mid-1980s. Within-country inequality has been rising in both advanced and emerging economies, while cross-country inequality has been decreasing. The focus of MDBs and the UN on decreasing poverty, represented by the Millennium Development Goal (agreed by UN member states in 2000) of ending extreme poverty, has corresponded to rising incomes in emerging economies and lower inequality between countries. However, the multilateral system has been less successful in influencing within-country inequality but has recently increasingly emphasized its importance. Both the UN and MDBs have in recent years adopted goals to reduce inequality, for example:

- one of the World Bank's twin goals adopted in 2013 was to boost shared prosperity (World Bank 2015);
- Sustainable Development Goal 10 aims to reduce inequality within and among countries (UN 2015);
- AfDB, ADB, IaDB and EBRD all include reducing inequality or promoting inclusive growth as key strategic priorities.

Inequality is not only a concern for ethical reasons, but also for its negative impact socially, economically, and politically. Chapter 7 discusses inequality's detrimental effects on economic growth, education, social mobility, health, social cohesion, crime, environment and political stability, and emphasizes that it is and should be a concern of policy makers at the national and global level. National political will for some of these policies is low, as the results take decades to be seen, hence sustained support from multilateral institutions is key. Chapter 7 also provides an extensive list of policies to reduce inequality, many of which could be (or already are) supported by multilateral institutions, such as support for early childhood development, improved education quality and access, water and sanitation, increased accessibility to infrastructure and services, at all levels, and healthcare capacity and quality. The recent SDR allocation could be used to fund some of these policies. As inequality is a concern for developed and developing countries, it is well-suited for multilateral coordinated action.

Climate Change

As the climate is a global public good relevant to both developed and developing countries, climate change can only be addressed through a cohesive and coordinated global approach as discussed in Chapter 9. The global governance system has attempted to tackle climate change through many initiatives and agreements:

1. The 1997 Kyoto protocol was the first international agreement on reducing emissions.
2. The 2009 Copenhagen accord adopted by over 130 countries established the target that global warming should be limited to below +2°C.
3. The 2015 Paris Agreement was an important step in addressing climate change with both developed and developing countries agreeing to reduce emissions and mitigate climate change. It also established that financial assistance from developed countries to developing countries should increase by US$100 billion a year through 2024.
4. COP 26 established a target of limiting global warming to +1.5°C.

Unfortunately, this approach has not been successful in reaching the targets to reduce global warming or cut emissions: (i) the Kyoto Protocol did not achieve its target for reduced emissions; (ii) developing countries did not agree for many years to reduce their own emissions; (iii) the Paris Agreement's targets corresponded to +3°C global warming, well above the target of +2°C (UNEP 2016), relied on voluntary commitments for countries, and the US$100 billion target in additional financing was not met; and (iv) country targets are still not sufficient overall for meeting +1.5°C global warming.

The authors of Chapter 9 estimate that US$1 trillion per year is required for climate mitigation and adaptation, and believe that MDBs should play a crucial role in financing and leverageing private financial flows by:

- increasing the authorized capital of MDBs to help achieve the US$1 trillion target;
- providing comfort to private sector investors by co-investing in projects; and
- utilizing recent additional developed country SDR allocations for climate finance in developing countries.

The lack of a coordinated approach has been attributed to the different positions of advanced and emerging economies and their inability to reach a consensus within the multilateral system.

Jobs, Technological Change and Productivity

Chapters 11, 12 and 13 focus on the future of work, technological change, and productivity, which are increasingly linked. How these are addressed by EMDEs and the multilateral system will determine if EMDEs grow faster than or at least as fast as advanced economies, or face stagnation. Adopting new and frontier technologies and training a labour force that is adept with these new technologies will hopefully translate into continued productivity growth. Policies to improve jobs, technology and productivity directly impact one another.

Technological change is an important influencer in how people work and what kinds of jobs they have. Digitalization of work had been slowly progressing for years, but now has been accelerated due to the COVID-19 pandemic. The ability to adopt these new technologies is fairly high in advanced economies. However, according to UNCTAD's technological readiness index, the least 'ready' countries are located in developing countries (UNCTAD 2021). Although, multilateral institutions are well-placed to assist developing countries in creating policies that promote technological readiness, based on successful experiences elsewhere, this has not been central to their agenda.

Technological growth and changes can disrupt how people work. One effect of recent technological changes is the growth of the 'gig economy' which has resulted in more part-time work with limited access to healthcare, continuing training and education, and other benefits. These workers also fail to benefit from wage growth and social mobility. In addition, technological change can make some jobs obsolete.

Productivity growth is key to economic growth, a priority area for many MDBs. The period from 1950 to 1980 saw sustained productivity growth. However, the last three decades have experienced much lower productivity growth rates. Chapter 14 provides details on the trends in productivity and potential causes for its recent stagnation, including: external shocks and recessions, labour force size and declining returns to education, inequality and increase in informal/gig economy, declining returns to R&D and slow adaptation of technologies. MDBs are well-suited to address many of these areas. Multilateral support for education, focusing on STEM fields, promotion of digitalization and new technologies and policies to address dislocation of labour and capital due to technological change will impact jobs, technological growth and productivity.

Reasons for Lack of Effectiveness

As seen in the analysis of the five above topics, the multilateral and global governance system has room to make significant progress in effectively tackling the issues most relevant to EMDEs and their citizens. The relative lack of effectiveness in these areas thus far can be attributed to: (i) weak mapping between multilateral institutions and the needs of EMDEs; (ii) insufficient embedding of issues currently relevant to EMDEs and anticipation of new ones in the dialogue with multilateral shareholders; and (iii) minimal support of coordination on these topics between EMDEs and multilaterals. The reasons for these shortcomings, particularly the lack of mapping between multilaterals and the agenda of EMDEs today, may tell us something about the drivers of the work of multilateral institutions. Is this lack of mapping because those that are most interested in development issues in advanced economies are usually non-governmental organizations (NGOs) and their supporters, those that are most focussed on outdated ideas of development (one focussed only on basic needs) as represented by the older MDGs, and consequently that their governments, which provide the bulk of the capital of the MDBs, are essentially responding to that domestic pressure when influencing the policy and lending programs of multilateral institutions?

Western Standards and High Transaction Costs Driving Global Governance and Multilateral System

The influence of advanced economies in determining the standards of multilateral institutions generally, and development banks specifically, has increased the financial and non-financial costs for emerging markets and developing economies in working with MDBs and other institutions. The 2009 Report of the High-level Commission on Modernization of World Bank Group Governance recommended that 'these costs will have to be contained and reduced' and 'to make the non-financial costs of borrowing from the Bank less onerous while observing environmental and social standards'. Although high transaction costs at the largest MDBs have been criticized for years, no progress has been made in reducing them. Rather, they have increased.

The long history of multilateral development banks has resulted in their advanced economy shareholders becoming increasingly 'risk averse to stories of corruption, waste, human rights abuses, and environmental injustices' (Center for Global Development 2016). This has translated into rules and processes and increased bureaucracy that attempt to control for these factors. And yet, the effectiveness of these rules and processes has not been established. Rather, borrowers from the World Bank and other MDBs have criticized them for their long approval times, delays and high transaction costs (Humphrey et al. 2015). This is particularly noted as an issue with infrastructure projects (Center for Global Development 2016). This has been cited as a reason, alongside its relatively rapid appraisal and approval process, for the success and growth of CAF in Latin America (Humphrey et al. 2015). It was one of the reasons behind the desire to create the AIIB and NDB, although the former largely adopted the same due diligence practices of the legacy multilateral development banks.

Voice of Emerging Markets in the Global Governance System

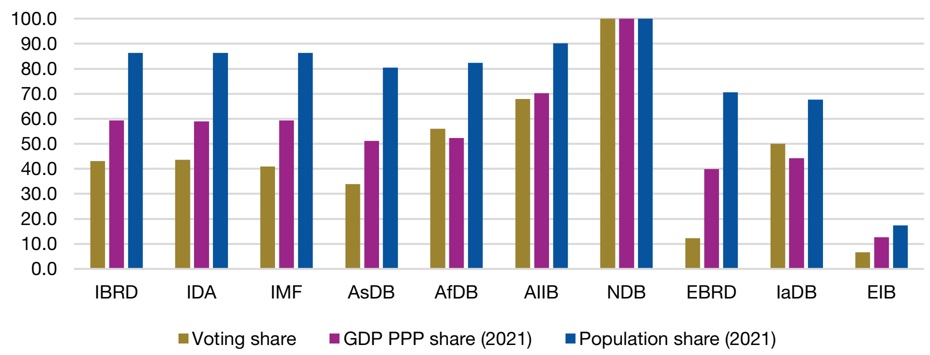
Influence of EMDEs in Global Governance Entities Compared to Their Relative Economic Size and Population

Advanced economies continue to lead multilaterals and have outsized influence primarily because the shareholding structure of the majority of global governance entities has not materially changed since their establishment. Among the eight largest multilateral banks and financial institutions established in the twentieth century (IDA, IBRD, IMF, ADB, AfDB, EBRD, IADB and EIB), advanced economies accounted for over 50 per cent of the voting shares in six of them at the time of establishment; and advanced economies continue to hold the majority of voting power in 2021. Managements of these institutions, not surprisingly, give greater weight to the views of those shareholders that provide the majority of the institutional financial capital. The only two institutions in which emerging markets and developing countries, the borrowers, hold the majority of the voting shares, are IADB and AfDB.

Not only do the voting shares of most of these institutions skew toward advanced economies, but so does their leadership. The heads of five of the largest institutions—IBRD, IMF, ADB, EBRD and EIB—have always been from advanced economies. This not only reflects their large voting shares, but also the outdated 'understandings', between the advanced economies upon the establishment of these institutions. Although not set out in the IMF or World Bank's articles of agreement, there exists an informal understanding that the World Bank President will be an American (decided by the United States) while the IMF Managing Director will be a European (a single candidate increasingly decided by the EU). This informal agreement has been followed since the establishment of both institutions (Patrick 2019). Similarly, since its establishment, there exists an understanding that the ADB President will hail from Japan. Such understandings and the fact that they continue to be upheld also undermine efforts by emerging market and developing economy leaders to increase their role and influence at these institutions.

The shareholding and leadership nationality deficits in these institutions do not reflect the relative size of emerging market and developing economies globally, either in terms of GDP or population (Figure 18.2). As noted in Chapter 3, emerging economies already account for over half of global GDP in PPP terms, a share that is expected to continue to increase through to 2060. In seven of the ten MDBs reviewed, emerging market and developing economy members would have a much higher share of votes if voting shares were reflective of their GDP weight. The picture is similar if voting share were to reflect population weight. Nearly 85 per cent of the world's population lives in emerging and developing economies. In all of the MDBs, emerging market and developing economy members would have a significantly higher voting share if it reflected their population size.

Figure 18.2: EMDE voting share compared to population and GDP share



Source: World Bank 2021b and shareholding documents of included multilateral institutions.

Creation of Special Purpose Multilateral Institutions and New MDBs

There is a growing sense in many EMDEs that the current multilateral system is increasingly losing legitimacy because of its failure to address fully the issues of concern to EMDEs, an excessive focus on satisfying the needs of Western interest groups and a growing mismatch between actual economic weight of EMDEs and historic voting shares. This is a central reason behind the creation of, first, special purpose multilateral institutions, and then more recently, new emerging market-led multilateral development banks, specifically the AIIB and the NDB.

Special purpose institutions were established to address specific concerns that were not being (sufficiently) addressed by established multilaterals, most particularly in the health field. Due to a stalling in vaccination rates, Gavi, the Vaccine Alliance was created in 2000 to provide immunization to some of the poorest countries (Gavi, the Vaccine Alliance n.d.). The Global Fund for AIDS, TB and Malaria (GFATM) was created in 2002. In both of these bodies, the voice of emerging market and developing economies is much greater than in the traditional multilateral institutions.

New institutions were also created in the environment and climate change field throughout the 1990s and 2000s, largely because it was felt that the existing all-purpose multilateral institutions were falling to prioritize this agenda over other demands and falling short of providing the coordinated action that is urgently needed:

- The Global Environment Facility was created in 1991 to address environmental problems (GEF n.d).
- The Green Climate Fund (GCF), founded in 2010, is 'a dedicated financing vehicle for developing countries within the global climate architecture, serving the Financial Mechanism of the UNFCCC and the Paris Agreement' (GCF n.d.).
- The Network of Central Banks and Supervisors for Greening the Financial System (NGFS), created in 2017, aims to scale up central banks' green financing and work on the implications of climate change for banking systems.

Although advanced economies are prominent in all of these entities, and provide the majority of the financing—and thus far the leadership for GEF, GCF and NGFS—it is commonly held that the voice of emerging market and developing economies in these forums is quite influential.

New MDBs have also been established with the goal of giving an increased voice to emerging markets. The AIIB was founded in 2015 and NDB in 2014, and are headed by emerging market countries—China in the case of AIIB and the BRICS nations on a rotating basis in the case of NDB. Both are headquartered in China. They also have the highest voting shares held by emerging market and developing economy countries of any of the MDBs. In the case of NDB, 100 per cent of the voting power is held by EMDEs. A fundamental reason given by supporters of the creation of these two institutions was the failure of the established MDBs to recognize formally the growing economic weight of EMDEs in their shareholding structure.

Recommendations for Loudening EMDE Voice

The shortcomings of the multilateral system, particularly regarding EMDEs, could be addressed by: (i) reorienting their policy work and lending programs to match more closely the issues of current concern to EMDEs rather than the interests of development lobbies in advanced economies; (ii) reducing the transaction costs for EMDEs in the work of the multilateral system; and (iii) giving a louder voice to EMDEs in the multilateral system.

Setting a relevant agenda

The focus of the multilateral system is very largely set by developed economies, both because most of these organizations are led by those from advanced countries and because they represent the largest proportion of shareholding. A more inclusive and equitable system needs to be created in the agenda-setting process. One option would be to reform internal rules, without even amending founding articles, to take global policy agenda setting out of governance structures where advanced economies have the ultimate say and into forums where all voices are equal.

There is hope on this front. Compare and contrast the Millennium Development Goals (MDGs) with the more recent Sustainable Development Goals (SDGs), both in process and content. The MDGs were created very much under the control of advanced economy governments and ended up as a shortlist of basic needs goals that reflected the concerns of development lobbies in rich countries. They spoke partially but more clearly to the development condition in low-income countries. Even then, in 2000, when the MDGs were adopted, many middle-income countries argued that these were being imposed on them by bilateral donors and the MDBs despite the different development challenges that they faced. The creation of the Sustainable Development Goals shows the multilateral system can learn and was a more inclusive process in which all countries took part and led to a longer and more comprehensive list of desired development outcomes that are a far better description of the challenges across EMDEs.

The UN system therefore showed good adaptive behaviour in moving from MDGs to SDGs. Can the MDBs do the same? One way to build a more inclusive and relevant agenda for the policy and lending programs of the MDBs would be to make more proactive use of the Development Committee of the World Bank, on which all shareholders sit and where the chairmanship has often been provided by EMDEs. The Development Committee could come together twice a year to ensure the MDBs were focussed on an agenda that is relevant to all its borrowing countries and that the institutions were working as a system, and that work in each institution was truly reflective of its business model and expertise, so that the sum impact is better than the parts.

Reducing the transaction costs

In order for the multilateral system to function successfully for EMDEs, the latter have to view multilateral institutions as desirable partners. Fewer and fewer emerging economies will want to engage with multilateral institutions if the transaction costs are too high and prohibitive. Some institutions such as the AIIB, NDB and CAF have taken steps to reduce these costs such as:

- minimizing approval times;
- having a non-resident board; and
- raising the cut-off for financing that requires board approval.

There is a strong case for the legacy multilateral development banks to follow suit. A new initiative—a modern ‘bonfire of regulations’ within the MDBs—needs to be initiated. For this to happen, the MDB presidents, allied with their EMDE borrowers, need to form a cross-institutional initiative and set themselves a target, not necessarily to reduce the number of diligence areas, but to take on a more proportionate approach and adopt a target to reduce by half the time taken from project concept to effectiveness.

A louder voice for EMDEs in the multilateral system

Expanding the multilateral system to include additional emerging market-led institutions is one method to provide emerging markets with a louder voice. However, the current multilateral system can also be reformed to provide emerging markets and developing economies with louder voice and greater participation.

One straightforward, but probably still politically difficult, method would be to increase the voting shares of emerging markets in multilateral institutions, to more closely match their shares of global GDP (or even population shares). This would, of course, require significant support from current advanced country members. (In a similar vein, reforming the United Nations Security Council's Permanent Five Membership system would benefit emerging economies, but would likely face significant opposition.)

If experience suggests such a reallocation of shares in MDBs is politically impossible, then EMDEs should press for lowering the voting threshold for approval of country strategies and greater delegation of project approvals to management. Both actions would circumscribe the powers of the advanced economy shareholders on MDB boards to control the strategic policy and lending agendas of these institutions.

Outside of the MDBs, the EMDEs can become more influential in setting the global policy agenda if the OECD were to create an 'associate' status for EMDEs wishing to join the OECD (or other membership bodies) in the longer term. This is likely to face less resistance from advanced economies as it would also be a way to drive up standards within potential candidate emerging markets.

Another possibility for providing a greater voice to emerging markets and developing economies is promoting and supporting increased alliances between EMDEs in order to take advantage of their collective voice and voting power. Importantly, this would require no changes or reforms in any of the current multilateral institutions, increasing the likelihood that it would be successful. One has not seen this happen often enough, cf. the failure of EMDEs to agree on a common candidate for World Bank President and IMF Managing Director posts. If all other means fail, then strength in greater unity among EMDEs has to be one of the fastest ways of increasing their influence and role in the multilateral system.

Conclusion

This chapter presents the diminishing effectiveness of the multilateral and global governance system in addressing key concerns of EMDEs: inequality, climate change, jobs, technology, and productivity. Reasons for this include the high transaction costs of working with certain multilateral institutions and the inability of EMDEs to influence the agendas of these institutions.

The significant challenges faced by the world, the failure of the current multilateral system in addressing these challenges, and the distrust of the current global governance system require a rethinking of the multilateral and global governance architecture. The world has significantly changed since the establishment of the original Bretton Woods Institutions. The economic weight of the advanced economies at that time has diminished, and weight of emerging economies has grown. One option to capture these changes in a new system is to hold another Bretton Woods Conference—Bretton Woods 2.0. This will take a monumental, coordinated effort and may be a triumph of hope over experience, given the quality of leadership in G7 and G20. However, it is clear that the multilateral and global governance system must change very significantly to remain relevant.