

# **The Reform of International Institutions**

**By Dr. Francesco Stipo**

## Introduction

Globalization creates several issues that need to be regulated by international organizations because a single nation cannot deal with them by itself.

In 1945 the United Nations was created to regulate relationships among nations and prevent conflicts. However, the U.N. lacks coordination and needs to be reformed to increase cooperation both in the vertical dimension and the horizontal dimension. Vertical cooperation shall be developed between the U.N. and NGOs involved in international development; horizontal coordination shall be increased between the Secretary General and the specialized agencies.

New international institutions shall be given the authority to regulate global issues such as conflict prevention, water and energy supply, nuclear nonproliferation and the protection of the environment. Such institutions should be created within the United Nations, which has the administrative structure to enact and implement universal rules.

The international community has made several calls in recent years to create a new system of global governance. However, it has been difficult to turn the words into action.

The U.N. Reform should cover the legislative, executive, financial and judiciary branches. The General Assembly can be considered the legislative branch, the executive branch is the Office of the Secretary General and the Directors of the different specialized agencies, the judiciary branch is represented by the International Court of Justice and the financial branch by the World Bank and the IMF.

### 1) The Reform of the U.N. General Assembly

The creation of the United Nations was characterized by an error at its source: every nation has been given one vote in the Assembly. This system allows a nation of small geographic dimension like Nauru, with a population of about ten thousand inhabitants and a surface equivalent to 0.1 per cent of the city of Washington D.C., to have the same legislative power of the United States of America, a country with a population of over 300 million inhabitants and a surface of 9,631,420 sq. km<sup>i</sup>.

In other words, at the United Nations General Assembly, ten thousand people have the same voting power as three hundred million.

This inequality induced the initial members of the United Nations to find an artificial remedy to the original error, subordinating the most important decisions to the approval of the Security Council, a body composed of five permanent Member States, each one with veto power.

The institution of the Security Council has demonstrated the inability of the General Assembly to function by itself as a legislative body, as if the constitution granted legislative power to the Parliament and then decided to limit it, expressing in practice its mistrust towards the institution.

The first issue that needs to be addressed is whether or not a nation's population can be used as a parameter in determining its voting power. Giving one vote to each Member States' citizen would create a system of representation proportional to the population rather than to the number of nations.

However, the adoption of such a system would encounter many problems, both if it is carried out by giving people the right to elect representatives directly and if it gives governments the power to appoint a number of delegates proportional to each country's population.

In fact, because population is unequally distributed on our planet, if a one vote-one person system was adopted by the United Nations, only two nations, China and India, would be able to control over one third of the Assembly, confining nations like the United Kingdom and Australia to a marginal role.

The economic criterion is the result of the application of the principles of meritocracy to international organizations, giving more power to the countries that are able to produce a higher volume of goods and services for humanity.

It is based neither on the number of nations in the world nor the number of their respective inhabitants, but rather on the productivity of their citizens and their capacity to generate an offer of goods to satisfy global demand.<sup>1</sup>

Each international organization in the UN system has its own Assembly.

The Member States' governments appoint delegates for each specialized agency's Assembly. Each permanent delegation is usually composed of an Ambassador and a variable number of alternates (from one to five). The Assemblies have the task of enacting the decisions relative to the specialized agencies they belong.

In the majority of international organizations within the UN system each nation has one vote in the Assembly.

Even in the organizations in which there isn't a voting system based on quota, like the International Monetary Fund and the World Bank, every nation is present in the Assembly with a delegate.

Currently, the United Nation Organization is composed of 192 nations; the specialized agencies are composed of a number of nations between 100 and 192.

This means that each nation has to pay the cost of 18 delegations (one for each international organization<sup>ii</sup>) and that the international legislative power is entrusted to over three thousands delegations.

---

<sup>1</sup> Francesco Stipo, World Federalist Manifesto. Guide to Political Globalization, 2007, pages 31-35.

The result is an elevated cost borne by each nation, plus the cost on the international organizations to arrange the meetings.

The justification of this plurality of Assemblies could be found in the delegates' experience on the matters assigned to each international organization.

However, the functions of each specialized agency do not differ from the functions assigned to each Ministry of the Member States' governments.

In democratic republics there is only one Parliament that enacts the law on every subject and it is the duty of the Ministers to have the necessary skills to apply the law.

At the international level, instead, the system is structured as if each Department has its own Parliament.

The only difference between the nations' Parliaments and the international organization's Assemblies is that the first are elected by the people and the second are appointed by the governments.

However, their role though is identical: to promote, amend and approve rules and decisions.

There is no reason why there should be 18 different budget and 18 different Assemblies, one for each UN specialized agency<sup>iii</sup>, when would be sufficient to prepare one single budget and submit it, along with all decisions and Resolutions, to the General Assembly of the United Nations.

This way it would save financial resources that, instead of being spent to pay salaries and delegation costs, could be used to finance international projects of development.

As congressmen are assisted by lawyers and economists, the delegates of the United Nations Assembly would be assisted in the same way by professionals when the complexity of the subjects exceeds their knowledge.

Because the governments have the ability to appoint individuals of high cultural standards (while such standards are not requested in the election of congressmen in single nation's Parliaments), the recourse to professional support would be occasional and the relative costs would be lower than the fixed costs of the salaries of thousands of national delegations in the different international Assemblies.

Using the Parliaments of European democracies as a model, the preparation of certain legal documents of particular complexity could be assigned to the Secretaries of the different Departments and then submitted to the UN General Assembly for approval.

The General Assembly could also form specialized commissions for specific matters.

The General Assembly of the United Nations would have the authority to enact Resolutions and Decisions on all the subjects of the UN specialized agencies

It would also have the authority to approve the unified balance of the United Nations System.

If U.N. Resolutions became binding, the unification of the United Nations Assemblies would create the first world legislative branch<sup>2</sup>.

The introduction of a bicameral system to the United Nations General Assembly would make the international legislative branch become more similar to modern democracies. As in parliamentary republics the Parliament is divided in two Houses (for instance, in the United States, Congress is divided in a Senate and a House of Representatives), so the General Assembly of the United Nations should be divided in two Chambers, one with the current one nation-one vote system, the other with a different voting system that takes into account the political and economic balances of world nations. The two Chambers of the General Assembly may have separate competences on different matters<sup>3</sup>.

## 2) A better coordination of the United Nations System

One of the main reasons why the UN system is so fragmented is the lack of a common criterion of Member States' participation to the budget of the international organizations. Each organization has a different contribution system and a different voting system.

The allocation of the Member States' contributions among different international organizations makes it difficult to keep track of the payments, increasing the difficulty for the Member States' citizens to know the precise amount of the payments due to the international organizations.

There is also a general lack of coordination among the different specialized agencies: currently, the only coordination office is the Chief Executives Board (CEB) which brings together on a regular basis the executive heads of the organizations of the United Nations system<sup>iv</sup>.

However, the CEB's main role is recording the activity of the UN system organizations for statistical purposes; there isn't a body with the role of defining, directing and coordinating the activity of all UN system's specialized agencies.

A higher level of cooperation among the different agencies has been invoked by the Millennium Declaration; however, the Declaration didn't propose a unification of the UN system<sup>v</sup>, but rather limited its scope to foster the promotion of greater collaboration among the different organizations to reach the ambitious objectives for the new Millennium.

Centralization of the United Nations' budget and management would allow for a better coordination of the activities, reducing the financial burden for the administration of the 15 specialized agencies.

---

<sup>2</sup> Francesco Stipo, World Federalist Manifesto. Guide to Political Globalization, 2007, pages 75-77.

<sup>3</sup> Francesco Stipo, The Global Challenges of the New Millennium, Newsletter of the World Academy of Art and Science, 2013.

The creation of a common voting system applicable to all the UN specialized agencies, would allow the central executive body (for example, the Secretariat) to draw up a budget plan, which would allocate the international contributions among the different specialized agencies.

The budget plan should be subject to the approval of the UN General Assembly.

The Secretariat would assume the function of Department of Finance and Department of the Treasury of the UN system.

The specialized agencies instead would have the juridical nature of International Ministries or International Departments: becoming internal divisions of the United Nations, their general policy would be directed by the Secretary General.

The Secretariat would assume the role of Head of the World Executive Branch and it would have the following functions:

- a) Direction of international policy coordination;
- b) Coordination of the activities of the Departments;
- c) UN system budget planning;
- d) Reception of Member States' contributions;
- e) Budget allocation among the different Departments (specialized agencies)<sup>4</sup>.

The WTO (World Trade Organization) is not an organization within the UN system, even though cooperation exists between the two.

It establishes rules for international trade through consensus among its Member States.

One of its main roles has been increasing international trade by promoting lower trade barriers.

The IAEA (International Atomic Energy Agency) too is an independent international organization related to the United Nations system.

The WTO and the IAEA shall become part of a reformed UN system to allow better coordination of their activities<sup>5</sup>.

### 3) A better role for the International Court of Justice.

---

<sup>4</sup> Francesco Stipo, World Federalist Manifesto. Guide to Political Globalization, 2007, pages 79-83.

<sup>5</sup> Francesco Stipo, World Federalist Manifesto. Guide to Political Globalization, 2007, page 84.

The International Court of Justice was established in 1946 and its main functions are to decide cases submitted to it by States and give advisory opinions on legal questions submitted to it by the General Assembly or the Security Council, or by such specialized agencies authorized to do so by the General Assembly in accordance with the UN Charter.

In a unified UN system, the International Court of Justice should have jurisdiction over disputes regarding the interpretation of the Resolutions and the Decisions of all international organizations. The Court should review the conformity of the decisions to the UN Charter and to the Universal Declaration of Human Rights, as well as the conformity to the decisions of the international organizations.

This way the International Court of Justice would assume the role of International Supreme Court, having jurisdiction in all cases in which the UN Member States deemed that the decisions of the international organizations are violating the fundamental principles of the United Nations.

The decisions of the International Court of Justice should be binding for both the Member States and the international organizations<sup>6</sup>.

#### 4) The Reform of International Financial Institutions

The international financial branch is composed of the World Bank Group and the International Monetary Fund.

They both belong to the UN system but have separate budgets and voting systems.

The World Bank provides developing countries with interest-free and low interest loans as well as grants to build infrastructures.

The original function of the International Monetary Fund was to define the international monetary policy.

However, its role now is to maintain market stability.

For this purpose, since 1945 Member States agreed to keep their interest rates stable and their currency pegged to the value of the U.S. dollar, which, as determined by the Bretton Woods Agreements of 1944, was itself proportional to the value of fine gold.

Such a system assumed the name of “par value system”, and lasted until 1971, when the United States ended the dollar convertibility in gold.

During the period of the par value system, the International Monetary Fund carried out the role of international monetary organization, having the power to authorize the interest rate variations of Member States.

---

<sup>6 6</sup> Francesco Stipo, World Federalist Manifesto. Guide to Political Globalization, 2007, page 100.

After the suspension of the par value system, IMF's function of defining monetary policy was re-dimensioned: Member States are no longer required to request the IMF's authorization to re-appreciate or devalue their currencies.

As a result, currencies are now freely floating in the monetary market.

The role of the International Monetary Fund has become closer to that of the World Bank, shifting from the monetary to the financial function.

As a result, currencies are now freely floating in the monetary market.

The role of the International Monetary Fund has become closer to that of the World Bank, shifting from the monetary to the financial function.

Today, the International Monetary Fund finances States with balance of payment problems, as well as offers technical assistance to nations at risk of economic crisis.

The financial mechanism of the IMF allows Member States to withdraw foreign currency in exchange for national currency.

Loans are paid when the national currency is repurchased by the borrowing nation.

Furthermore, the International Monetary Fund applies an interest rate on loans, which represents the organization's main source of profits.

States have a voting power proportional to the number of quotas held in the Fund, which is determined by such factors as their GDP, the value of their reserves and the volume of transactions<sup>vi</sup>.

Reserves are expressed in special drawing rights, which are an international asset determined by the value of a group of currencies: US dollar, yen, euro, Swiss franc and British pound.

Both organizations are composed of a Board of Governors, which is represented by the Ministers of Finance for the World Bank and the Governors of the Central Banks for the IMF; both Board of Governors meet once a year to define the general policy at the General Meeting of the World Bank and the International Monetary Fund.

Day to day administration is performed by executive directors elected by the Member States.

By consuetudinary rule, the Managing Director of the International Monetary Fund is a European citizen and the President of the World Bank is an American citizen<sup>vii</sup>.

A double international financial organization would make sense if there were a single world currency and the IMF had the power to determine the world interest rate, thereby influencing the interest rates of the Central Banks and directing the international monetary policy. This way the IMF would have a different role than the World Bank.

The interest rate constitutes one of the methods to influence currency's exchange rate; since 1971, year when the IMF has ceased to exercise a direct control over exchange rates, the only methods to influence the exchange rate are the interest rate and open market interventions.

In the event of the creation of a single world currency, the Bank for International Settlements would be more suitable than the IMF to carry out the role of World Central Bank because it loans funds directly to central banks.

After the collapse of the Bretton Woods system a separation between the World Bank and the International Monetary Fund has no reason to exist and causes a waste of resources.

The two organizations are carrying out identical functions: serving as credit institutions for States and privates.

The only real difference between them is the purpose of their respective loans: the World Bank finances projects for the growth of developing countries, while the IMF finances nations affected by economic crisis or whose balance of payment is burdened by considerable losses

Not only the functions but also the organization and voting systems of the IMF and World Bank are very similar:

The respective bodies are mainly represented by Ministers of Finance because both their capitals are composed of contributions from Member States' governments, which are also the main recipients of the loans;

All World Bank members are also members of the International Monetary Fund;

Both organizations are headquartered in the same city (Washington D.C.), and their respective Boards of Governors meet jointly on the same day of the year.

However, they have two separate Boards of Governors, two separate Departments of Statistics (which often analyze the same data, such as the nations' GDP), separate training centers, separate executive boards, and separate national offices.

There is no reason for an identical work to be performed by two different organizations.

In the past, the separation could be justified because the IMF issued short-term loans while the World Bank specialized in long-term loans; this does not happen any longer, though, as the IMF has also started issuing long term loans<sup>viii</sup>.

The merger of the World Bank Group with the International Monetary Fund would allow a reduction of the administrative costs for both organizations, stemming from the streamlining of their bureaucratic apparatuses, as well as a reduction of Member States' costs to pay the delegates for both organizations; the merger would also allow a more efficient use of capital though the coordination of their activities.

The configuration of a unitary framework, though divided into different internal departments, like the World Bank Group, would preserve the separate administration system, but the general directives of both organizations would be adopted by a single Director, a single Board of Governors and a single Executive Board.

The convention that requires the President of the World Bank to be an American citizen and the Administrative Director of the IMF a European citizen could be maintained by alternating the appointment of European and American citizens to the direction of the unified organization.

The divisions of the IMF, in which it performs the same functions as the World Bank, would be suppressed.

The reorganization would allow for a better allocation of the profits of both organizations, as well as a reduction in administrative expenses of about 30-40%<sup>ix</sup>.

The surplus stemming from the reduction in expenses could be reinvested in projects of international usefulness.

After the unification of the budget of both organizations, the President would have the power to use part of the World Bank's assets for loans to nations in financial crisis while during economic growth the profits of the IMF could be allocated to finance the World Bank's projects of development<sup>7</sup>.

## Conclusions

The United Nations needs to be reformed to reflect the historical changes that occurred in the past 50 years and a new system of global governance shall be created with better coordination among international institutions to be able to deal with the global challenges of the new Millennium.

---

i CIA, The World Factbook, December 19th, 2006. Population data referring to an estimate of July 2006.

ii Including the UN, its 15 specialized agencies, the WTO and the IAEA.

---

<sup>7</sup> Francesco Stipo, World Federalist Manifesto. Guide to Political Globalization, 2007, pages 114-123.

---

iii Including the UN, WTO and IAEA.

iv United Nations, <http://www.unsystemceb.org>.

v One United Nations, <http://www.unsystemceb.org/oneun>.

vi IMF, [www.imf.org](http://www.imf.org) (Feb. 21th, 2007).

vii IMF, <http://www.imf.org> (February 06, 2007).

viii Fischer Fritz, Merging the World Bank and the IMF, in "The Globalist", January 12th, 2005

<http://www.theglobalist.com/StoryId.aspx?StoryId=4317>.

ix Petrov Oleg, Course Paper on Legal and Institutional Aspects of Reforming the International Monetary Fund and the World Bank Group's Policy-Based Lending. What Kind of Merger (if any) is Feasible, in Fletcher School of Law and Diplomacy, Dec. 1995, [www.sangha.net/papers/jsaf.doc](http://www.sangha.net/papers/jsaf.doc).