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Slovenia in the OECD: Working Together Multilaterally for Optimal Results

Irena Sodin[a]

[a] Ambassador, Permanent Representative of Slovenia to the OECD

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Introduction

Multilateral cooperation is built on the bedrock of security. While it all started in terms of physical security, with nation states working together to prevent outright conflicts, the notion expanded to include issues of economic security and then spread into practically all spheres of life. The notion of security also defines its mechanics. Smaller states feel safer if multilateral rather than unilateral action is taken on a certain issue, while bigger states get added value from lower costs compared to unilateral action.

The challenges of the modern world go well beyond the capabilities of individual states to solve them on their own as unilateral action is, by and large, inefficient. Acting unilaterally may mean quicker decisions, but its sustainable implementation globally has proven virtually impossible. This very simple wisdom lays the foundations of today's international architecture, the part of the multilateral world that was largely set up after the Second World War. While many organizations were established to help with the reconstruction of damage caused to nations and their economies during that war, and to maintain peace, they evolved with time to deal with new issues presented to us all.

There is something very rational in embracing multilateralism. We are all stronger working together. It is also consistent with the human spirit: we generally do not like doing things alone. And one can only expect "good multilateral behavior" from others if we practice it ourselves.

Opening up our economies took place in a multilateral setting, within the General Agreement on Tariffs and Trade (GATT), the World Trade Organization (WTO) and the European Union (EU), it offered many new opportunities. Admittedly, it also brought negative effects to some parts of our societies, at least in the short term. And we approached these in a multilateral setting again. So, multilateralism breeds more multilateralism.

International financial institutions were set up to address certain aspects of development and reforms, mostly restricted to a specific geographic region. They reflect the specific challenges of the age they were addressing.

In an ideal world, we should all be striving towards fulfilling the missions of such multilateral organizations in a linear manner. Surely, countries that are shareholders of these institutions should place the final objectives for which they joined forces at the heart of their decision-making. The same should go for leadership and staff of these institutions. Employees working on their daily tasks should be the ones carrying the torch for the mission of each individual institution. Is this the case all the way through? If not, what should be done about it? Who are the real advocates of multilateralism and its benefits?

Organizations and Stakeholders: Making Multilateralism Work for All

All of the international organizations that represent part of today's international architecture were established towards the end of or after the Second World War, in order to respond to specific challenges. Some were intended to act globally, and others to take on a special role in a specific region of the world. After the conception of the twin Bretton Woods institutions, the International Monetary Fund (IMF) and the World Bank in 1944, most multilateral development banks on different continents were founded in the next two decades. The newest in Europe is the European Bank for Reconstruction and Development (EBRD), which had a specific mission to assist countries in the transition from centrally planned to market economies after the fall of the Berlin Wall.

Addressing the aftermath of the Second World War led world leaders to the recognition that working multilaterally is a more efficient way forward. Rebuilding countries after the devastation of war required joint efforts.

Taking a critical look as a representative of a shareholder in a number of these institutions results in a positive assessment, but also identifies several areas in which our common work has room for improvement. Sometimes, a lot of room for improvement. Working together enables us to learn from each other and exchange views on what works and what does not. Best practices are developed through these processes, yet best practices have the desired effect only when stakeholders adopt them as their own and take proper ownership of their delivery. It is irrelevant whether the stakeholders are countries, companies or small teams in SMEs.

Do best practices as seen by individual institutions always withstand the test of time? With time, and depending on the economic cycle, these institutions also face challenges of their own.

If shareholders do not work together on future directions and are not coherent in their positions, these institutions' management teams can be in the driving seat instead. And that might not necessarily be in the interests of shareholders for at least two reasons. First, it is good corporate governance that the shareholders challenge management appropriately. It keeps management alert and imposes discipline. But that is only an internal, institutional perspective. Even more important is the external discipline that shareholders need in order to make sure that each of the institutions fulfills part of the bigger picture.

Shareholders should be brave enough to exert their judgment in assessing when each institution's job is accomplished. Indeed, it would be hard to cite a success story in which shareholders were able to congratulate themselves on a job well done and invoke a sunset clause in a multilateral institution.

International financial institutions have very similar membership. The largest developed countries are represented in all the institutions, whilst smaller countries often decide on regional membership of institutions closer to home.

Even though challenges of specific parts of the world may differ, we need to work collectively to ensure that scarce resources are utilized in the most efficient and effective way. Avoiding geographical and/or sectoral overlaps would be a good place to start looking at efficiency. The exponential rise in the number of multilateral institutions has not been very conducive to efficiency. In fact, it has imposed a coordination cost among the multilaterals, while also offering more choice to clients. In providing the choice, each of the institutions should work towards fulfilling its tasks within a given framework. There is a lot of scope for better cooperation and better processes. Where more institutions are working in the same geographical areas, they should keep the interests of their clients as their primary goal. If individual institutions do not fully buy in to a mission and customers fail to take proper ownership, we cannot expect lasting results.

While competition can generally have a positive impact, it may not always be desirable in the context of international financial architecture. Institutions should work together, not against each other.

Shareholders bear part of the responsibility for the optimal functioning of the international financial system. They hold the governance of these institutions in their hands. If we are not consistent in our guiding principles for all organizations, we ourselves create space for less efficiency. The largest shareholders with their prevailing interests have tended to exert most influence on future directions. They should not lose sight of the primary objectives and should restrain from imposing deviating political or economic interests through multilateral program. Alliances of smaller shareholders can equally go a long way in playing a constructive role rather than just challenging the hegemony of the Group of Seven (G7).

Multilateral organizations have typically been founded on straightforward maxims. For instance, if market economies lead to superior economic results, then let's create institutions that will support these. Or, if health issues know no borders, then let's tackle them through a multilateral World Health Organization (WHO). But if there are lessons we could take from today's world, they must be that greater efficiency is only possible with appropriate specialization and global players run the show.

This has implications for multilateralism. We will only enhance its efficiency if we manage to achieve specialization among the multilaterals. Specialization can be shaped along geographical or sectoral lines (or both). This part can be modeled if shareholders are disciplined. Regarding global players, things are more difficult. In a world of Apple, Google and Amazon, we are yet to institute a multilateral that would carry a fraction of these companies' clout.

Slovenia, as a smaller shareholder in a number of international organizations and international financial institutions, firmly believes in multilateralism. It takes the most active role in regional institutions.

The EBRD is a good example of an institution that comes with a two-fold role for Slovenia, which is a country of operation and a donor country. The case of Slovenia also shows how shareholders can play their role in supporting a country's interests, even if management may sometimes be reluctant to do so.

From the perspective of a country of operation, many enterprises in Slovenia have used EBRD financing since joining the organization in 1992, amounting to a cumulative business volume of €1 billion over this period. Financing came with expertise on technical, economic and governance issues. Some of these enterprises are very successful today, some face challenges and some do not exist anymore. This could be interpreted as a decent outcome, showing that the EBRD was ready to take on risk, did not engage solely in cherry-picking the winners, and has learned a lesson in market economy. Transition is a learning process for us all.

The EBRD is an institution which some shareholders (mainly European) saw before the crisis as a candidate for merging with the European Investment Bank (EIB). In good times, it seemed that the mission of the EBRD was largely achieved in most advanced countries. The largest shareholders (particularly non-European) expected that the EIB would seize EBRD operations there. The Czech Republic graduated from being a country of operation and the EIB started closing some offices in the most advanced countries, including Slovenia. The Board of Directors held many discussions about paying out dividends to shareholders as financial statements yielded hefty profits for several years.

But then the crisis of 2008 hit, seriously affecting several advanced countries of operation. In 2009, Slovenia's GDP fell more than 8% in just one year. After almost two decades of a relatively benign external environment coupled with ample financial resources in the pre-crisis years, companies became over-leveraged, banks had to shore up their balance sheets and the need for restructuring expertise became self-evident. On top of that, with external financing having dried up, we were faced with a lack of funds. EBRD had both. Yet EBRD management was reluctant to re-engage with a full-scale program. It took a Board visit to Slovenia and many discussions with shareholders to make the case that Slovenia, more than ever, was in need as a beneficiary of the Bank's mission. The country office in Slovenia was reopened and new projects started coming to the Board for approval. Without concerted effort from the shareholders, management would have continued on their set way.

Another example of shareholders showing a clear future direction for the EBRD was the decision of what was then the Group of Eight (G8) countries and the European Council (EC) in autumn 2011 to expand its operations to four southern and eastern Mediterranean countries: Egypt, Jordan, Morocco and Tunisia. This year, Lebanon became the newest member of the Bank, hoping to benefit from its accumulated knowledge and financing in the near future. This shows how leadership in a multilateral setting creates efficiencies of scale, and how a common interest starting with very basic security can be broadened to include better functioning of the economy and can only be achieved under a multilateral umbrella.

A good example of a multilateral cooperation success story is financing for the Western Balkans. In 2006, the EBRD established its Western Balkans Fund. Slovenia was the first amongst the advanced countries of operations to announce its financial contribution. Other advanced countries of operations followed suit.

In 2008, the Western Balkans Fund evolved into the Western Balkans Joint Fund with the EBRD, the EIB, the European Commission and the Council of Europe Development Bank (CEB) deciding to establish a common platform for cooperation and pooling of funds. Since 2009, the European Western Balkans Joint Fund has been administered by the EBRD and EIB.

Slovenia's interest in the region is clear. We share a common history. We are geographically close. For the stability of Europe, it is important for the countries of the region to pursue reforms and catch up economically as quickly as possible. In honoring its interest, Slovenia has been acting bilaterally and multilaterally. In the latter, we have been a keen promotor of multilateral work in our neighborhood.

The examples above are just a few cases of EBRD shareholders, big and small, working towards common goals and realizing that a multilateral setting provides greater leverage while keeping the interests of clients at the heart of decision-making. At the same time, by maintaining coherent positions, shareholders are not surrendering their sovereignty to a multilateral. Rather, we create a conducive environment for good future cooperation.

Conclusions

It is generally accepted that working together in a coherent and consistent manner brings better results. The history of the first international financial institutions spans more than seven decades. While the initial scope of action of these institutions has often changed, their missions have adapted, and their memberships increased, the complexity of today's challenges has expanded. With shifts in the geo-political positioning of many countries, working together is even more important for many reasons.

After the Second World War, progress started from a very low base. The newly created institutions brought hope that governments would use them as tools for working together for the benefit of all. Yet prosperity came to different parts of the world and different parts of societies at uneven speed, leaving many people behind.

The latest financial crises had a hugely widespread negative economic and social impact which was felt by many people. Disparities increased. This gave rise to a great deal of discontent and created an environment ripe for the current climate of populist movements, particularly pronounced since the latest flow of migrants into Europe began.

Today, we lack unity in the direction of future development of international organizations. It is worrying that there is no political will to align our interests in global governance. Unless we all commit to the initial missions of the organizations that we have set up, we undermine our past work and stand little chance for joint success.

Yet the above examples from one of the financial institutions show that we can make multilateralism work for all. By maintaining coherent positions, we create an environment conducive to good future cooperation.