

Leadership Selection at the International Financial Institutions

Jenny Ottenhoff

The International Financial Institutions (IFIs) are multilateral agencies. The term typically refers to the International Monetary Fund (IMF), which provides financing and policy advice to member nations experiencing economic difficulties, and the multilateral development banks (MDBs), which provide financing and technical support for development projects and economic reform in low- and middle-income countries. The term MDB is usually understood to mean the World Bank and four smaller regional development banks:

- African Development Bank (AfDB)
- Asian Development Bank (ADB)
- European Bank for Reconstruction and Development (EBRD)
- Inter-American Development Bank (IDB)

This brief focuses primarily on the leadership structure and selection process of the IMF and the World Bank.

Who Owns the IFIs?

The IFIs are owned by member governments. The World Bank and the IMF have near global membership with 187 countries. The regional development banks have fewer shareholders made up of both regional and nonregional countries. The United States is a member of all of these institutions.

Each member government is a shareholder of the institution. A country's voting shares and level of board representation are based roughly on the size of its

economy and its financial contributions to the institution. The United States is the largest single shareholder of the World Bank and the IMF, with about 16 percent of shares, followed by Japan, Germany, the United Kingdom, and France. These five countries together have about 38 percent of the total shares; each has a single seat on the board. China, Saudi Arabia, and Russia each also have a single seat on the board although they comprise a much smaller portion of the shares (a total of about 9 percent). Other member countries are grouped in constituencies of four or more countries per seat.

Table 1
IFI Leadership Selection Overview

	President	Term (yrs)	Next Election	Traditional Leadership	Headquarters
IMF	Non-Borrower	5	2011	European	Washington, D.C.
World Bank	Non-Borrower	5	2012	American	Washington, D.C.
AfDB	Non-Borrower	5	2015	African	Abidjan, Côte d'Ivoire *
ADB	Non-Borrower	5	2011	Japanese	Manila, Philippines
IDB	Borrower	5	2015	Latin American	Washington, DC

*Temporarily relocated in Tunis, Tunisia

Box 1

World Bank and IMF Leadership Selection Survey Results

Leading up to the leadership successions at the World Bank in 2007 and the IMF in 2011, the Center for Global Development launched online surveys to solicit views on the selection process. The results of both surveys show striking unity and indicate that after nearly five years, respondents' views on the leadership process at the two institutions remain virtually

unchanged. In both the 2007 and the 2011 surveys, about 85 percent of respondents disagreed or strongly disagreed with continuing the status quo, in which the U.S. and Europe nominate a single candidate for the leadership position, and a similar number agreed or strongly agreed with a merit-based selection process, without regard to nationality.

Who Leads the IFIs?

While independent from one another, the IFIs have similar internal organizational leadership structures made up of a board of governors, a board of executive directors, and a president. The board of governors is the highest decision-making body and consists of one governor for each member country. The governors, generally ministers of finance, meet annually.

The governors delegate day-to-day authority over operational policy, lending, and other business matters to the board of executive directors who work on-site at the institution's headquarters. There are 25 members on the World Bank's board of executive directors and the IMF's executive board, and fewer for some of the regional development banks. At the IMF and World Bank, these 25 board members represent all 187 member countries.

The president of each IFI chairs meetings of the boards of directors and is responsible for overall management of the institution.

Countries with larger voting shares exercise significant influence over the leadership at the IFIs. Major shareholders with individual board seats have more voting power and therefore more influence on institutional decisions. As the largest single shareholder of the IMF and the World Bank, the United States exercises considerable influence.

Leadership Selection—The Nature of the Unwritten Agreements

In principle, the president of each IFI is nominated and voted on by the board of

executive directors. In practice, the selection of the leader of the World Bank and the IMF is based on an unwritten, informal understanding between the United States and Europe. Under this arrangement, which dates to the creation of the two institutions in 1944, the United States nominates the World Bank president and European governments nominate the managing director of the IMF. These nominees have been routinely approved by the respective board of directors. The heads of both institutions may serve up to two five-year terms.

Why Leadership Matters

Under the weighted voting system (more financial contributions equal more voting power), high-income countries have greater influence over institutional policies than do developing countries. This discrepancy can generate tension between the interests of major shareholders and borrowing countries. Major shareholders, who provide most of the capital to IFIs, want to maintain their influence to ensure that the funds they provide are spent in areas that reflect their priorities and values. But the borrowing countries, which are generally the most affected by the IFIs activities, seek greater influence in the setting of institutional agendas and policies (see table 2).

There is general recognition that the IFIs might be more legitimate and thus more effective if their systems of governance were more representative of the interests of emerging economies and borrowing countries.

Calls for Reform

Over the last decade there have been increasing calls to modernize the leadership selection process at the IFIs and address poor representation, in terms of voting power, of their borrowing member countries. Leadership succession at the World Bank in 2007 and the IMF in 2011 prompted widespread public appeals for an end to the informal conventions that dictate the selection processes of the two institutions. And the selection procedures for the president of the World Bank and the IMF have been the subject of numerous internal and external reviews.¹ Although the governments of the high-income countries have resisted reform, there is a strong consensus within the international community in favor of a selection process that is open, competitive, and merit-based, without regard to nationality (see box 1).

The IFIs are slowly taking steps to respond to the demand for reform. In 2009, the IMF acknowledged the need to adopt an "open, merit-based and transparent process" for the selection of IMF management. Both the IMF and the World Bank have taken steps to adjust voting shares to provide for increased representation of emerging markets and developing countries. Still, despite the increased competition to determine who would lead the IMF when the post suddenly became vacant in 2011, the current leaders of the World Bank and the IMF are from the United States and Europe, respectively.

Have We Reached a Tipping Point?

The unexpected leadership succession at the IMF in 2011 reignited discussions over IFI leadership selection processes and highlighted a shift in the evolving debate. During the World Bank leadership transition in 2007, calls for reforms were mostly confined to nonofficial circles such as think tanks and NGOs. In 2011, Brazil, Russia, India, China, and South Africa (the “BRICS”) joined these calls and issued a joint statement urging an end to the unwritten convention that positions Europe and the United States at the head of the IMF and World Bank. By speaking out, the emerging economies, whose voting shares in the IFIs lag their growing economic might, have drawn attention to the changing landscape in global economic power and created fresh impetus for reform.

Options for Reforms

While sweeping reforms to the governance structures of the IFIs are unlikely in the near term, there are options for reform that can be considered to make the leadership selection process more fair and balanced.

- **Establish nominating committees**—
The IMF and World Bank could each

establish a standing committee of eminent persons to vet and nominate a short list of candidates for board consideration. This would broaden the pool of talent including capable individuals who would not be nominated by their home governments (such as former ministers of finance not of the party currently in power). With their strong voting power on the World Bank and IMF boards, the United States and Europe would continue to play a dominant role in the IFIs without monopolizing the leadership selection process.

- **Implement double majority voting**—
A double majority requirement in future elections of the heads of the IMF and World Bank would require that both a majority of weighted votes (votes according to countries’ shares—the current approach) and a majority of countries would be needed for a decision. Double majority voting would protect the interests of the major shareholders (United States, Europe, etc.), and render the decision-making process more inclusive for developing countries as well as the rising emerging-market economies. Double

majority voting also opens the possibility for coalition building which would help to foster the engagement and cooperative spirit that are required if the IFIs are to become more effective and legitimate.

Conclusion

The IFIs play a critical role in promoting economic development and global stability. During the recent global financial crisis, the IMF and World Bank were central in helping middle- and low-income countries cope with the crisis and aided the recovery in high-income countries. As global integration increasingly links the interests of rich and developing countries, the role of the IFIs becomes ever more prominent.

Yet the legitimacy and effectiveness of the IFIs are in question, in part because developing countries, whose governments and people are the main beneficiaries, are poorly represented in their governance structures. As a result, the status quo is no longer accepted and the pressure for governance reforms continues to mount.

The dilemma at the global level concerns reconciling the continuing need for

Table 2
IFI Governance Structure

	Voting Share (%)				Executive Directors				
	U.S.	G-7	High-Income	Developing	U.S.	G-7	High-Income	Developing	Total
IMF	16.77	26.38	66.70	33.30	1	7	14	10	24
World Bank	16.03	27.84	65.92	34.08	1	7	15	10	25
	U.S.	G-7	Non-Regional	Regional	U.S.	G-7	Non-Regional	Regional	Total
AfDB	5.499	30.03	45.79	54.21	1	6	26	12	38
ADB	5.03	35.29	28.58	71.42	1	5	8	4	12
IDB	30.01	45.75	15.98	84.02 (50.02*)	1	5	11	3	14

Source - IFI annual reports. Website data on shares, AfDB, IDB IMF and WB.
*Regional voting share total without the United States and Canada.

financial support of the high-income countries with the ability of the IFIs to remain legitimate and effective in a changing world. Ensuring increased stakeholder representation and a more balanced leadership selection process is a start. Implementing these reforms would allow the IFIs to more adequately reflect the new global economy and continue to promote prosperity around the world.

Endnotes

Jenny Ottenhoff is a policy outreach associate at the Center for Global Development. She benefitted from insights and feedback from Sarah Jane Staats, Lawrence MacDonald, and Chris Molitoris during the drafting of this brief, which draws on previously published work, including IFI annual reports.

¹ International Monetary Fund, “IMF Governance—Summary of Issues and Reform Options” (IMF Strategy, Policy, and Review Department and Legal Department, 2009), www.imf.org/external/np/pp/eng/2009/070109.pdf; International Monetary Fund, “Committee on IMF Governance Reform: Final Report” (2009), www.imf.org/external/np/omd/2009/govref/032409.pdf; David Peretz, “The Process for Selecting and Appointing the Managing Director and first Deputy Managing Director of the IMF,” IEO Background Paper (Independent Evaluation Office of the IMF, 2007), www.ieo-imf.org/ieo/files/completedevaluations/05212008BP07_01.pdf.



1800 Massachusetts Avenue NW
Third Floor
Washington DC 20036
Tel 202.416.4000

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Additional CGD Reading

David Wheeler, “Unity in Diversity: A Global Consensus on Choosing the IMF’s Managing Director,” CGD Working Paper, forthcoming.

Nancy Birdsall, “Why It Matters Who Runs the IMF and the World Bank,” CGD Working Paper 22 (2003), www.cgdev.org/content/publications/detail/2768/.

David Wheeler, “It’s One World Out There: The Global Consensus on Selecting the World Bank’s Next President,” CGD Working Paper 123 (2007), www.cgdev.org/content/publications/detail/13861.

Nancy Birdsall, Devesh Kapur, et al., *The Hardest Job in the World: Five Crucial Tasks for the New President of the World Bank*, CGD Working Group Report (2005), www.cgdev.org/content/publications/detail/2868.

The ABCs of the IFIs: Understanding the U.S. Role in Shaping Effective International Financial Institutions for the 21st Century

The International Financial Institutions (IFIs) are major sources of financial and technical support for developing countries and play a critical role in promoting economic development and global stability. As the interests of high-income and developing countries become more linked, the role of the IFIs will become even more prominent.

The United States and other nations have a common interest in ensuring that the IFIs are well managed and well funded. This CGD brief is one of six on the financial and governance issues facing the IFIs. Please email publications@cgdev.org to receive any of the others:

- The World Bank
- The International Monetary Fund
- The International Finance Corporation
- The Regional Development Banks
- Leadership Selection at the IFIs
- The ABCs of the General Capital Increase