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## The Process for Selecting and Appointing the Managing Director and First Deputy Managing Director of the IMF

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This paper reviews the processes for selection and appointment of the Managing Director (MD) and First Deputy Managing Director (FDMD) as they have developed in practice over time. To the extent feasible it examines informal processes within and between member governments, particularly in Europe, in the U.S., and in the G-7, as well as formal processes. Second, it reviews recent improvements in processes in other international organizations for appointing heads. Third, it considers whether there are any lessons to be learned from best practice on the appointment of heads of national public bodies and of CEOs in the private sector. Fourth, it reviews proposals made for improving the IMF process, notably by the working parties of the boards of the Fund and Bank which produced a joint draft report in 2001. Fifth, it seeks to identify promising approaches to improving the process in the future.

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This paper was written in 2007 and revised at the end of 2007 shortly after the appointment of Dominique Strauss-Kahn as Managing Director.

## What Is the Current Process, and How Has It Evolved over Time?

The formal position for appointment of the MD, as set out in the Fund's Articles, is that the Managing Director is selected by the Executive Board (by a simple majority). The MD may not be a Governor or Executive Director of the Fund. The reality is that negotiations about candidates take place at government level at least among the countries with largest Fund quotas; and despite increased questioning in recent years, an informal convention remains in place that the MD should be a European, while the FDMD should be a U.S. national as should the President of the World Bank.

The formal position for appointments of Deputy Managing Directors (DMDs) is that the appointments are made by the MD, subject only to the provision in the Articles about all staff appointments, which says: "In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible." In practice the post of Deputy Managing Director—and since 1994, the FDMD—has been understood since it was created in 1949 to be reserved for a U.S. Treasury nominee.

Box 1 summarizes experience in practice in the appointment processes for the seven most recent Managing Directors. It is clear that while the convention has always been that the person selected should be European, the U.S. played a major role in the earlier appointments—including the appointments of the first three MDs, Camille Gutt (Belgium), Ivar Rooth (Sweden) and Per Jacobsson (Sweden). In the last four appointments efforts were made amongst Europeans to agree to a single European candidate, and it was only with the last three appointments that such efforts were successful. Up until 2000 the membership had been presented with some choice of European candidates, giving the U.S. and other non-European industrial countries, and/or the developing countries a say in the final choice. Moreover in 2000 the U.S. did in practice exercise a *de facto* veto over the first European choice, forcing European countries to nominate a second candidate.

With appointments to the post of FDMD (before 1994 the only DMD) the practice has varied, but it seems that for two of the last three appointments the U.S. Treasury offered the MD a choice between more than one candidate. In one case there was some degree of consultation with the wider membership before the MD made his choice. In a second case, only one candidate was presented by the U.S. And in the third case the MD consulted Executive Directors (EDs) on the qualities and experience he should be looking for in a FDMD before making his choice.

### Box 1. Selection of Managing Directors, 1963–2007

Managing Director, nationality, and date of appointment	Comments on selection process
<p><b>Pierre-Paul Schweitzer</b>, France (September 1, 1963 to August 31, 1973)</p>	<p>Backed by the U.S. from a field of several European candidates. But U.S. Treasury Secretary successfully lobbied against reappointment for a third term in 1973.</p>
<p><b>H. Johannes Witteveen</b>, Netherlands (September 1, 1973 to June 16, 1978)</p>	<p>Industrial countries, including U.S. and European countries, had agreed to propose Emile van Lennep, Secretary General of the OECD. But developing countries were unhappy with this choice and persuaded the Netherlands to propose former Finance Minister Witteveen instead, who proved acceptable to all.</p>
<p><b>Jacques de Larosière</b>, France (June 17, 1978 to January 15, 1987)</p>	<p>Governor of the Banque de France, and first approached by the U.S. No effort to produce a single European candidate, and several other names emerged, with Willem Duisenberg, former Netherlands Finance Minister emerging as a serious candidate. Developing country support was divided, however, and in the end Duisenberg withdrew in the face of support for de Larosière from all the G-5 countries.</p>
<p><b>Michel Camdessus</b>, France (January 16, 1987 to February 14, 2000)</p>	<p>After de Larosière announced his intended retirement in September 1986 there were extended efforts to reach agreement in Europe on a single candidate, with Onno Ruding, Netherlands Finance Minister and chair of the Interim Committee, and Camdessus, Governor of the Banque de France the two candidates. Despite a narrow EU majority for Ruding, Camdessus did not withdraw, and by December with the EU still deadlocked both names went forward. A suggestion that Sir Jeremy Morse (U.K. former chair of the C-XX Deputies) be put forward as a compromise candidate was not pursued by the U.K. government. U.S., Japan, Canada, Saudi Arabia, and the Nordic countries remained formally neutral, abstaining from the straw polls arranged by the Fund Board (although U.S. Treasury Secretary Baker quietly let it be known that he preferred Camdessus), giving the developing countries a decisive voice in choosing Camdessus.</p>

**Box 1 (concluded)**

**Horst Köhler,**  
Germany  
(May 1, 2000  
to March 4, 2004)

Almost immediately after Camdessus announced his intention to resign the German Government proposed Deputy Finance Minister Cio Koch-Weser for the post. Although no other candidate emerged it took several months, until end February 2000, for EU Finance Ministers to agree to support Koch-Weser. By then two non-European candidates had emerged: DMD Stanley Fischer, proposed by a group of developing country EDs, and Eisuke Sakakibara, Japanese Former Deputy Finance Minister, proposed by Japan. At that point the U.S. President and Treasury Secretary informed their German counterparts that the U.S. could not support the Koch-Weser candidacy, and after an initial straw poll of EDs, which gave Koch-Weser 43 percent support, his name was withdrawn and Germany proposed Horst Köhler, President of the EBRD instead. He quickly gained EU support, the Fischer and Sakakibara nominations were withdrawn and on March 23 the Board selected Köhler as the only candidate.

**Rodrigo de Rato,**  
Spain  
(June 7, 2004  
to October 31 2007)

Köhler resigned in March 2004 following his nomination for the German Presidency. In subsequent EU discussions two candidates emerged—Rodrigo de Rato, former Spanish Finance Minister, and Jean Lemierre, French President of the EBRD. The discussions were informed by soundings taken among all IMFC members by Gordon Brown as Chair of the IMFC. Agreement to nominate de Rato on behalf of the EU was reached on April 22. By then a developing country ED had proposed three non-European candidates, of whom one allowed his name to go forward to the final meeting of EDs which decided, after an initial straw poll, to appoint de Rato by consensus on May 4.

**Dominique Strauss-Kahn,** France  
(November 1 2007  
to present)

In June 2007 de Rato announced his intention to step down after the 2007 Annual Meetings. In early July EDs agreed a process for selection of a successor, establishing a timetable, a candidate profile and inviting nominations from EDs without geographical preferences. But ahead of that agreement among EDs, EU Finance Ministers had moved quickly to agree to support the candidacy of Strauss-Kahn as proposed by the French Government. The U.S. Treasury Secretary confirmed the U.S. would support any European candidate of “real stature.” By the August 31 deadline there had been only two nominations—Strauss-Kahn, formally nominated by the German ED on behalf of all EU countries, and Josef Tosovsky, a former Prime Minister and Central Bank Governor of the Czech Republic, proposed by the Russian Federation. After hearing presentations from both candidates and interviewing them the Executive Board selected Strauss-Kahn by consensus on September 28.

Sources: Kahler, 2001; Fund press releases; and discussions with and comments from current and former IMF and national officials.

## Weaknesses in the Process

There are clearly many weaknesses in these processes judged on the criterion of whether they are likely to produce the best possible field of candidates and best eventual appointments, some much commented on, others perhaps less obvious.

- The convention that the MD should be a European, the FDMD a U.S. citizen (and the President of the World Bank a U.S. citizen) clearly reduces choice. As can be seen from the history, though, how far it reduces choice also depends on whether or not European countries, in the case of the MD, and the U.S., in the case of the FDMD, put forward one or more than one candidate for the post, and on this practice has varied—although in the last three selection processes the EU has agreed in advance on a single candidate.
- Before 2007 there was no statement of the qualities, expertise and experience that candidates should have, and even in the 2007 process the “candidate profile” established by the Executive Board fell short of a full job description.
- Some process improvements were made in 2007, with the Executive Board setting out a timetable and inviting nominations from EDs for the post of MD, and interviewing those that did apply. Nevertheless the selection processes lack transparency not least because the formal processes are to a degree detached from the substantive decision making processes, which to a large extent take place elsewhere in direct discussions between the EU, the G-7, and within the U.S. administration.
- There is no formal process for searching for candidates. The convention that candidates are proposed by the governments of their countries of origin has in the past resulted in some competent possible candidates not being put forward for a variety of reasons including domestic political factors or lack of enthusiasm by the national authorities. In the 2007 selection process this convention was broken with the Russian ED nominating a Czech national. But it remains the case that nominations can only be made by EDs, and there is no concerted search process to identify good candidates.
- The convention that only governments or the EDs representing them can make nominations has also contributed to a degree of “deal making” between national governments, trading off one international appointment against another. Within the EU the decision has become part of a wider set of explicit or implicit agreements between member states. The 2000 EU discussion, for example, was

much influenced by a feeling that it was Germany's "turn" to have a major international appointment, and that other countries had had or would soon have their turn (U.K. with NATO, Italy with the European Commission, France with the ECB).

- When there has been a choice of candidates for MD the factors determining what support each candidate gets were as likely to include those related to narrow national self-interest—which candidate is thought likely to be most helpful to a particular country or region—as judgments about competence for the job.

Of course many of these weaknesses are present also in the processes for other international appointments. The practice of horse-trading for international appointments and the notion that it is a particular country's or region's "turn" are widespread, as is the practice of the EU trying to reach agreement on a "common position" on international appointments. But some other international bodies have reformed their processes recently. Are these reforms effective and does the IMF have anything to learn from them?

## Recent Changes in Processes in Other International Bodies

In the last few years the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO) and the Bank for International Settlements (BIS) have adopted or used new procedures for choosing new heads (Secretary General of the OECD, Director General of the WTO and General Manager of the BIS). And within the United Nations (UN) system the Secretary General has put in place new procedures for selecting heads of agencies such as the UN Development Program (UNDP).

- In the OECD the decision on the appointment of a new Secretary General (SG) is made by the Council which can meet at the ministerial or ambassadorial level. In practice the process takes place among ambassadors. In the most recent appointment process, following a reformed procedure, member countries were invited to submit candidates nine months ahead of the expiration of the term of the previous SG in May 2006. From the six names put forward, the Dean of the Council, assisted by two other ambassadors (facilitators) led a process to identify a shortlist of the three candidates best placed to win eventual consensus, looking at qualifications as well as levels of support. A subsequent round of consultations reduced the number of candidates to two, with a decision reached after a third round of consultations at which one of the two remaining candidates withdrew to permit agreement by consensus. Facilitators

made a report to ambassadors after each round of consultations. There was no attempt to search for candidates not proposed by member governments and no agreed list of desirable characteristics or experience of candidates. Candidates provided CVs, were encouraged to visit member governments, and were interviewed by ambassadors. In practice, however, few ambassadors changed their positions over what turned out to be a lengthy process, suggesting that capitals made up their minds about who to support early in the process and were little influenced by learning more about the different candidates as the process went forward. An important factor in the final decision was the agreement in the EU not to reach a common position (there were two candidates from EU countries, one of whom reached the initial shortlist of three).

- The WTO adopted a new procedure for the appointment of the Director General (DG) in 2002. It lays out a clear timeframe for a process to commence nine months before and be completed three months before the expiry of an incumbent's term. Only member countries can nominate candidates, who must be their own nationals, and nominations must be made within one month of the start of the process. There is an agreed description of the required qualifications for the post, with "the desirability of reflecting the diversity of the WTO's membership in successive appointments to the post" also an explicit factor to be taken into account. Candidates provide CVs, and meet with and make presentations to the WTO General Council. Then in the final two months of the process the Chair of the Council consults with members and seeks to build a consensus. There is a provision for the Council to vote if a consensus cannot be reached in the appointed time.
- Under the Statutes of the BIS, the Chairman of the Board of Governors proposes a candidate for the position of General Manager, to be appointed by the Board. In September 2002, the Board of Governors named a six-member committee to assist in seeking a replacement for the departing General Manager. The committee outlined a broad profile of the qualities needed for success. Three candidates were short listed and interviewed by three of the six committee members.
- In the UN the Secretary General (SG) set out a new set of procedures for appointing senior UN officials in August 2005. A Senior Appointments Group was established to review candidacies and make recommendations to the SG. For each post an interview panel is established from members of this group to review and

interview candidates and make recommendations to the SG. For appointments of the Heads of UNDP and similar agencies there is a clear job description and a list of competencies against which candidates can be judged. Shortlists are drawn up from nominations from Member states, relevant institutions and lists drawn up through an outreach process, and shortlisted candidates are interviewed. There are plans to institute a more thorough process of reference checking.

Although procedures vary, a number of elements of what might be considered current “best practice” in international appointments are present in at least one and in most case two or three of these processes.

- (a) A clear timetable for the decision, setting out the various stages of the process.
- (b) A job definition and agreed list of competencies required.
- (c) A transparent process for seeking nominations, including a procedure for identifying potential candidates not put forward by member governments (as for appointments to UN agencies).
- (d) Establishment of a small panel or group charged with developing short lists and advising on candidates, and the appointment of facilitators to help steer the process of reaching consensus.
- (e) A requirement for candidates to submit CVs, make presentations or be interviewed.
- (f) Some explicit provision for ensuring that the need to reflect the diversity of the membership can be taken into account as a factor, in the decision or in successive decisions (as in the WTO).

Of this list, (a), (b) partly, and (e) were incorporated into the 2007 process for selecting the MD. None is present in the process for appointing the FDMD. While such elements clearly improve the process and make it more orderly, it is possible to question how much difference they make to the final decision where the decision depends on positions taken by member governments. In an ideal process the most important change of all—but equally the hardest to implement—would be to achieve agreement among member governments that they would decide their positions not on the basis of nationality or region of origin of candidates, nor on the basis of mutual agreements among member states, but solely on the basis of an assessment of the qualities and competencies of each candidate and an assessment of his or her ability to do the job and command the respect of member states.

## Lessons from National Public Appointments and the Private Sector

For senior national public sector appointments practice varies widely, but best current practice probably contains the following elements:

- A clear job description and set of competencies and experience required for the post.
- Public advertising of the post inviting applicants, supplemented by the use of search consultants and informal search processes.
- A committee of suitably experienced people to draw up shortlists, interview applicants and make a recommendation to the Minister or other official responsible for making the appointment.

In the private sector current practice also varies widely. However one of the reasons why current good corporate governance practice favors the creation of independent boards, separated from management, and separation of the roles of chairman of the board and chief executive, is so that the chairman, with the help of the board, can steer the process of selecting and appointing a new chief executive.

## Reform Proposals for Improving the IMF Process

The most comprehensive set of proposals for improving the process for appointing the MD is contained in the April 2001 joint draft report of Fund and Bank Working Groups established to review the processes for selection of the Managing Director and World Bank President. The Fund Working Group did not consider the processes for appointing Fund DMDs. The joint report was endorsed by both Boards, and submitted formally to the IMFC, but its recommendations have not been implemented. In August 2006, in its report to Governors on quota and voice reform, the Board indicated its intention to review the matter again:

*There is considerable agreement on the importance of ensuring that procedures for the selection of the Managing Director are open and transparent. The Executive Board will consider whether further steps, beyond those discussed by the Boards of the Bank and the Fund in 2001 and the steps followed for the selection of the Managing Director in 2004, are needed to ensure a fully transparent process for the selection of the Managing Director, as part of the two-year program of governance reforms.*

In practice there appears to have been no further Board discussion of the issue until the discussion in July 2007 of the process to be followed in selecting de Rato's successor.

The 2001 report proposed the following elements for an improved selection process:

- As a first step EDs should decide the qualifications required of candidates (though the Fund working group saw no need to specify any); establish an Advisory Group (AG) to assist EDs in the process; and establish a clear timeframe for the process.
- The AG should be composed of eminent persons familiar with the work and goals of the Fund, supported by executive search expertise as needed. It would review all candidates and produce an assessment for the Board, using interviews and other checks as needed.
- Candidates should be nationals of a member country whether or not nominated by member countries. Candidates whose names are not formally submitted by member countries should have an indication of support or at least non-objection from their home country government.
- Using the AG's assessments, and consulting with their authorities, EDs would agree a shortlist of candidates, and modalities for publication, before proceeding to seeking to reach a consensus decision.
- There should be a two term limit for appointments.

These proposals incorporate most but not all of the elements listed above as representing emerging best practice for international appointments. One issue that they do not directly address is what nationality considerations could or should be taken into account. Instead the report addresses the issue indirectly by noting an earlier statement by the G-11 group of EDs that "a plurality of candidates representing the diversity of members across regions would be in the best interests of the Fund: the goal is to attract the best candidate regardless of nationality." In 2004 this principle was endorsed by a wider group of EDs including also those representing Russia, Australia, and Switzerland, although a follow-up press release by the G-11 acknowledged that progress on this would be slow, and emphasized other changes that would increase transparency in the process.

Other outside critics have focused attention in particular on the nationality issue and on a perceived lack of transparency in the selection process. The NGO community has focused on the need for much greater transparency in the process, with decisions made openly, rather than in closed EU sessions or by the U.S. Treasury, and with voting outcomes between IMF EDs to be disclosed; and an end to the understanding about nationalities of MD, President of the World Bank and first DMD, so that the posts

would be open to all comers. NGO submissions to member governments call for a wider geographical representation in the top posts in the Bank and Fund, and regret the decision in 2004 not to implement the recommendations of the 2001 working group of EDs. The July 17, 2006 statement by a large group of European CSOs is typical:

The Managing Director and Deputy Managing Director of the IMF play an important role in defining the direction of the institution. The convention of European countries nominating the IMF Managing Director while the USA nominates the World Bank President and the IMF First Deputy Managing Director is unacceptable.

We demand the introduction of a transparent and democratic process for selecting the heads of multilateral organizations. This should involve all member countries equally and significant stakeholder groupings, and assess candidates on merit, regardless of their nationality. Geographical diversity in top positions should be actively encouraged. Such reform would only be significant if accompanied by ending the inequity in decision making so that all member governments can effectively participate in the selection process.

Similar statements by NGOs were issued ahead of the most recent appointment of a new President of the World Bank and again ahead of the selection of Strauss-Kahn.

## **Recent MD and World Bank President Appointments**

The required speed of decision taking was given as a reason for not implementing the procedures proposed in the 2001 draft report after Köhler's resignation in 2004. This was not however a factor in 2007, and it seems likely that concern to maintain the long standing nationality convention explains the reluctance of the European countries and the U.S. to implement more than a few of the 2001 recommendations in subsequent selection processes in the Fund and Bank. In the event in 2004 several non-European candidates were nominated of whom one allowed his name to go forward, but the outcome—selection of the EU nominee with support from other G-7 countries—was never in doubt. Similarly, the candidate suggested by the U.S. in 2005 for President of the World Bank was accepted by all, after a process of consultation, in that case with no other candidate emerging. For the latest appointment of World Bank President, in June 2007 there were some minor improvements in procedure: Bank EDs specified the qualities needed for the post, invited applications and set out a clear timetable for the process including a provision for inter-

viewing candidates, and invited nominations. But again there were no nominations other than the candidate put forward by the U.S., who was duly appointed on June 30, 2007. As already noted, Fund EDs implemented similar procedural improvements for the latest MD selection process—but again the selection of the candidate agreed by EU finance ministers was never in doubt.

## Possible Ways Forward

For the future EU member states have indicated a willingness to reform the selection process and end the convention that the MD be a European. Speaking at the October 20, 2007 meeting of the International Monetary and Financial Committee (IMFC) as Chairman of the EU Council of Economic and Finance Ministers, Minister Fernando Teixeira dos Santos said:

EU member states welcome the appointment of Dominique Strauss-Kahn as Managing Director of the IMF and look forward to working closely with him. They are willing to discuss the criteria and the procedure for the selection process of the Managing Director as part of a broader reform including top management from other international financial institutions.

Although there has as yet been no similar statement by the U.S. in respect of the posts of IMF FDMD or President of the World Bank, there does therefore appear to be some possibility of improving the process in future.

An obvious starting point for reform is to implement in full all the recommendations of the 2001 Working Group in respect of the appointment of the next MD. The Advisory Group would identify and assess a number of candidates from all regions, and help EDs produce a shortlist, from which a choice would be made in the usual way. There would need to be parallel changes in the arrangements for appointment of the FDMD who would no longer be a U.S. nominee, and possibly of all three DMDs, perhaps on the lines of the new procedures put in place for senior UN appointments—with a panel set up to identify candidates and make recommendations to the MD—while also providing for suitable consultation with EDs.

An end to the current nationality convention could require a further addition to the 2001 proposals if it were desired to retain some way of ensuring that all regions have a chance to be represented among senior managements of the two Bretton Woods institutions. This could take the form of the qualification used by the WTO—a statement that in decisions about the leadership of the Fund and Bank it will be desirable to ensure representation of the diversity of the membership in successive

appointments. An alternative approach might be an agreement that the top management structures of the two institutions (MD and DMDs in the Fund, President and MDs in the Bank) should between them always reflect the diversity of membership.

A few further additions to the 2001 recommendations would seem desirable, including the following:

- At the start of the process EDs should agree a job description as well as a list of the qualities/competencies candidates are expected to have.
- Towards the end of the process the Board or a Board committee might be given the opportunity to interview candidates, as occurred with the 2007 selection process.
- It might also help if all member countries explicitly undertook to support the candidate they considered best equipped to lead the institution—thereby implicitly stating that they would not to allow other considerations affect their choice. Such a declaration could act as a partial counterweight to pressures to support particular candidates on other grounds, for example regional or political solidarity.

Experience of the last few years suggests that the best time to discuss and agree such reforms, especially if they are to entail parallel changes at other IFIs, as proposed by the EU, is a time like the present when no immediate appointments are in prospect. Finally, good practice elsewhere suggests the time may have come to systematize and increase transparency in the process for appointing not only the FDMD but all three DMDs, while leaving the final decision to the MD, perhaps on the lines of the new procedures put in place for senior UN appointments—with a panel set up to identify candidates and make recommendations to the MD—while also providing for suitable consultation with EDs.

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