

## **Prague - a failed opportunity**

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At the Annual Meetings of the IMF and the World Bank in Prague last month, the United States, Britain and other major European governments buried efforts to reform how the heads of the organizations are selected. In failing to push this issue, they reneged on promises to make the institutions more open and accountable. As a result, European governments and the United States will find themselves on weaker ground in calling for other governments to reform their ways of doing business.

Earlier this year, a political furore was caused when Germany nominated Caio Kochweser to the top job at the IMF and the United States vetoed the candidate. Germany then came up with Horst Kohler who became Managing-Director. The rest of the world began asking why should Germany get to appoint this head of the IMF? And why should the United States get a veto on the appointment? It was soon widely agreed that the heads of global organizations like the IMF should not be selected in the backrooms of G-7 capitals. Indeed, the IMF announced a Working Group to Review the Process for Selection of the Managing Director. However, any commitment to reform on the part of the United States and Europe has now been shelved.

The challenge of reforming the selection process is not an impossible one. Since the World Bank and the IMF were created, the headships of the institutions have been in the gift of the United States and West European governments respectively. A change in this state of affairs requires the United States, Britain, France and Germany to take a lead and relinquish their historical but anachronistic privilege. There are several reasons why they ought to do this.

First, these countries have been at the forefront of demanding that the IMF and the World Bank become more accountable and more transparent. They have also been demanding this of all other member governments within the international institutions. The headship of each of the World Bank and IMF is an important place for them to set the example.

The President and Managing-Director of the Bank and Fund are important, visible symbols of global economic governance. The issue of how they are selected has come to the fore at a time of growing unease about these institutions. The demonstrators at Prague were not all anarchists and uncivil society running amuck. Like the groups who greeted the WTO meeting in Seattle last year, many were citizens concerned with poverty, development and democracy. They want the international institutions to democratize. Doubtless, their aspirations cannot all be met. However, as regards the top jobs in the Bank and Fund they have a good case.

The present process fails any standard of good governance. It is part of a history which has now been superseded by dramatic changes. Since their creation, the institutions have been transformed. They started with about fifty governments as

members, they now have more than three times that number. More importantly, most of their work has become focussed on developing countries.

Specifically, since the East Asian Financial Crisis, the G-7 countries have determined that developing countries must meet certain codes and standards of economic behaviour if global economic stability is to be preserved. The task of developing and imposing these standards has been entrusted to international organizations, with the IMF and the World Bank playing a key role. To perform this task, the institutions need credibility and acceptance from governments expected to welcome more intervention, more intrusion, and (as developing countries see it) more external meddling.

The leadership of the institutions is relevant here because developing countries rightly point out that they get virtually no say in the election of the Managing-Director and the President of the organizations. A formal vote is taken, but in a process slightly reminiscent of old Soviet-style elections, their choice is limited to either supporting or not supporting the US-backed winning candidate in the Bank, and the European-backed candidate in the IMF.

Given that the international financial institutions are providing global public goods including high quality research and policy advice, the demand for an election which permits countries to elect the most technically competent and universally acceptable candidate to the top job is hardly a radical one.

A final reason for reforming the selection of the heads of these organizations is more political. The IMF and the World Bank are situated in Washington DC, a stone's throw away from the US government. The heads of these agencies play a crucial role in defining the thin line which separates these international organizations from US foreign and economic policy objectives. A strong Managing-Director or President can mediate, negotiate, cajole, and persuade US administrations to listen to other members, to pay heed to research findings, and to care about the impact of organizations on all other member governments. This matters not just for good public relations but for the effectiveness of the organizations.

Yet none of these reasons swayed the United States or European governments in the lead-up to Prague. The United States effectively killed the issue some time before the Annual Meetings by letting it be known that it would not open up the top job at the World Bank to any genuine election. If the US does not budge, it is difficult to imagine the Europeans giving up their equivalent privilege in the IMF.

In their final communique Prague, the world leaders `noted' the work of Working Groups reviewing the selection process of the heads of each of the IMF and the World Bank. In effect, the United States and the European governments have killed the issue off for some time to come. The onus is now on these governments to explain how this squares with their commitment to greater accountability and transparency in international organizations.