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# A new leadership team for the Fund

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## A new leadership team for the Fund

*Bonn, 20 May 2011*. The search for a new leadership for the International Monetary Fund (IMF) has begun. After the resignation of the Fund's Managing Director Dominique Strauss-Kahn, the IMF's Executive Board will have to select a new Managing Director for the fourth time since the year 2000. The Board will also have to look for a replacement for John Lipsky, the Fund's First Deputy Managing Director and number-two official, who announced just two days before Strauss-Kahn's arrest that he will not seek a renewal of his contract when his current term expires on 31 August.

Traditionally, nominating a candidate for the IMF's top job used to be a European affair: informal agreement had it that a European would head the IMF. The U.S. government, by custom, would select the President of the Word Bank and the IMF's First Deputy Managing Director. This selection arrangement, which placed nationality and Fund quotas above qualification, has been a source of anger among the non-U.S. and non-European membership of the Fund for a long time. It has also contributed to the widely-held belief that the IMF and the World Bank were partly serving the interests of their biggest shareholders rather than the entire membership. But this practice should belong to the past: at the London Summit in April 2009, the leaders of the Group of Twenty not only affirmed the IMF's central role in the international financial system and agreed a tripling of the Fund's lending capacity to $ 750 billion, they also declared that from now on "the heads and senior leadership of the international financial institutions should be appointed through an open, transparent, and merit-based selection process". This promise will be put to the test now.

Qualification and personal integrity should certainly matter most when selecting the new IMF leadership team. Yet, nationality will count again, as it always does when important international leadership positions are filled. There are unquestionably some highly qualified European candidates who are fit for the job. And European governments will need someone at the helm of the IMF who will help them in tackling the European debt crisis. But would this really need to be a European?

Good reasons exist why the next head of the IMF should be no European (or American), no matter how competent and experienced she or he is. The IMF has made a remarkable comeback during the global financial crisis and is now centre-stage in almost any discussion on global financial stability. However, it is still suffering from a lack of credibility among its membership – especially developing and emerging economies – which urgently needs to be restored to ensure that the Fund can effectively fulfil its role as a guardian of the global financial system.

Decades of controversial policy intervention as a condition for crisis lending to developing countries have tarnished the Fund's reputation and nurtured the belief among its critics that it has used its position to serve the interests of its largest shareholders, rather than the countries it was called to rescue. Whether these allegations towards the Fund are justified is one thing, the fact remains that the IMF has a stigma in most of the developing world.

In East Asia, for instance, any government that were to seek Fund assistance would not last long. Too deep are the memories of the Asian financial crisis of the late 1990s, where many believe, rightly or wrongly, that the Fund's policy prescriptions have even worsened the crisis. Since the Asian crisis, East Asian countries have worked on establishing a regional financing arrangement to avoid having to call the IMF for rescue ever again. Even though the Chiang Mai Initiative Multilateralisation process – as the effort to create a regional monetary fund has become known – has been rather slow, it poses a potentially serious challenge to the IMF's role as global crisis lender.

Regional financing arrangements, which have existed in other parts of the world for several decades, can play important roles in guarding regional financial stability, and thus complement the Fund's mandate for ensuring global financial stability. Yet there is also the danger that such regional arrangements will become rivals to the Fund and complicate its work if the Fund fails to regain its lost credibility and overcome its stigma. Large emerging economies have accumulated sufficient foreign exchange reserves to fund such regional financing arrangements – and enough self confidence to position them as rivals to the Fund. If they feel sidelined in the formulation of the Fund's policies they may well look for alternatives in which they can throw in their weight. This could lead to a weakening of the Fund and would have dire consequences for the management of future global financial crises.

The IMF has already overhauled its policy toolkit to allow for more flexible crisis lending with fewer strings attached. Also, recent reform of the IMF's governance structure has given emerging economies a bigger say in the Fund's policies. Yet the Fund's Executive Board is still dominated by Europeans, and the U.S. maintains a veto right for the most important IMF decisions. These issues ought to be addressed through continuous governance reform. In the meantime, the Executive Board should give the Fund a leadership team which reflects the reality of a multi-polar world economy and which will develop its role as an independent policy advisor and competent crisis manager for its entire membership. Europeans should act in their own long-term interest in a cooperative management of the world economy. Of course they could push through a candidate of their own with the help of the U.S. But what will be the price for doing so?