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Sir Suma Chakrabarti

Free, open, merit-based selection for a president of an IFI: a rare case study

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SUMMARY

Despite calls for reforms to selection processes for appointing their leadership, international financial institutions (IFIs) have been slow to embrace transparency and competitiveness, and to move beyond their traditions of automatically appointing nationals of particular countries to their top roles. However, the European Bank for Reconstruction and Development (EBRD) bucked this trend during its selection of a new leader in 2012, due to a unique set of circumstances arising. Bob McMullan, former Australian Member of Parliament and an Executive Director of the EBRD, recounts his experience during this selection process, and offers reflections on how these entrenched processes in IFIs could be slowly changed.

KEY POINTS

- The case of the EBRD presidential ballot in 2012 shows that from time to time, opportunities may arise to set new precedents in the election of leaders of international financial institutions.
- Australia should remain alert to the possibility of circumstances arising which make a free and open elections a possibility in the IFIs of which it is a member.

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INTRODUCTION

In 2012, a unique event took place. An international financial institution (IFI), in this case the European Bank for Reconstruction and Development (EBRD), held an election for President — and the result was not a foregone conclusion!

In my experience of the IFIs of which Australia is a member (the World Bank, International Monetary Fund, Asian Development Bank and EBRD) this has never happened before.

However, it took a rare conjunction of events to lead to that outcome, and it is far from certain it will ever happen again.

But once a precedent is created, the possibility of a repeat exists, and that opportunity is too good to waste.

There has been a long history of reform proposals for IFIs which have included the need for an open merit-based selection process for their leadership. The 2017 Lowy Institute report on the Asian Development Bank (ADB) is just one of the more recent examples.[1]

I had the opportunity to observe the EBRD's foray into competitive, open and merit-based selection of a President first hand while serving as Executive Director representing Australia, New Zealand, Egypt and the Republic of Korea.

Having served as a politician and Labor Party official for many years I had observed many elections, both public and internal party ballots. This provided an insight into the issues, process questions and manoeuvres involved in the EBRD presidential election.

1 O'Keeffe, A, Pryke, J, Wurf, H 2017 'Strengthening the Asian Development Bank in 21st century Asia,' Lowy Institute for International Policy, Sydney.

Table 1: Past EBRD Presidents

President	Nationality	Term
Jacques Attali	French	1991-1993
Jacques de Larosiere	French	1993-1998
Horst Kohler	German	1998-2000
Jean Lemierre	French	2000-2008
Thomas Mirow	German	2008-2012

BACKGROUND

The EBRD, which is headquartered in London, was set up in response to the fall of communism in Eastern Europe, and began operations in 1991.

Since its beginning, the Presidency of the EBRD had always been held by either a French or German national (Table 1).

There has never been a formal requirement that this should be the case, it had just been accepted that it would always be so. Just as the President of the World Bank has always been an American, the President of the ADB has always been Japanese, and the Managing Director of the International Monetary Fund (IMF) a Western European.

The European Union (EU) members that are shareholders of the EBRD have always had the capacity to determine the Presidency, provided they acted together (see Table 2).

The Articles Establishing the Bank (AEB) stipulate at Article 5(a):

> *"...no...subscription shall be authorised which will have the effect of reducing the percentage of capital stock held by countries which are members of the (EU) together with the (EU) and the EIB, below the majority of the subscribed stock."*

Table 2: European Union membership and shareholding in EBRD (%)

Countries of Operations (COO)		Non-COO countries		Institutions	
Bulgaria	0.80	Austria	2.31	EIB	3.04
Croatia	0.37 [1]	Belgium	2.31	EU	3.04
Czech Rep.	0.86 [2]	Denmark	1.21		
Cyprus	0.10 [3]	Finland	1.26		
Estonia	0.10	France	8.62		
Greece	0.66 [4]	Germany	8.62		
Hungary	0.80	Ireland	0.30		
Latvia	0.10	Italy	8.62		
Lithuania	0.10	Luxembourg	0.20		
Poland	1.29	Malta	0.01		
Romania	0.49	Netherlands	2.51		
Slovak Rep.	0.43	Portugal	0.42		
Slovenia	0.21	Spain	3.44		
		Sweden	2.31		
		U.K.	8.62 [5]		

Table notes: 1 Croatia was not a member of the EU in 2012; 2 Czech Republic is notionally a recipient country but graduated prior to 2012; 3&4 Cyprus and Greece are now recipient countries but were not in 2012; 5 The UK was a member of the EU at this time.

THE CANDIDATES

Thomas Mirow

The incumbent President was a German, Thomas Mirow, who was generally regarded as having done at least a reasonable job, perhaps even better than that. He was eligible for a second term and if he had been supported by Germany I am certain he would have retained the position.

Mirow faced two problems in winning German support. The first problem was that he is a Social Democrat while Chancellor Angela Merkel is a Christian Democrat. The second, and apparently larger hurdle, was that Germany had a candidate for the Presidency of the European Investment Bank (EIB) and indicated that this was a higher priority for them.[2]

Perhaps for these two reasons, or as a result of broader considerations in the relationship, Germany gave its support to whoever the French government chose.

2 The German candidate for President of EIB, Werner Hoyer, was subsequently elected and still holds that position.

Philippe de Fontaine Vive

The selected French candidate, de Fontaine Vive was at that time a Vice-President of the EIB and therefore well-known in European Finance Ministries. On paper, he seemed a suitable candidate. However, for whatever reason, he proved unable to garner sufficient support from other EU countries to win the position. Nevertheless, Germany supported the French candidate to the bitter end.

Sir Suma Chakrabarti

This combination of circumstances—an unsupported German incumbent and an unacceptable French candidate—created an opportunity that the UK government seized to put forward their own candidate, Sir Suma Chakrabarti.

Sir Suma was at that time Permanent Secretary at the UK Department of Justice, but was well known in development circles for his previous service as Head of the Department for International Development (DFID).

Other candidates

Once the debate around the position opened up other candidates emerged: Mr Jan Bielecki, a former Prime Minister of Poland and a former Board member of the EBRD and a respected economist and Mr Bozidar Djelic, a former Finance Minister and Deputy Prime Minister of Serbia.

PRIOR DISCUSSIONS

As the Australian EBRD Governor, Wayne Swan, gave an early indication of support for Sir Suma, I was not actively involved in all the early discussions amongst Directors about options.

Even if this had not been the case, much of it took place within EU delegation meetings in any event, and non-EU members were excluded.

However, I was able to have significant and useful discussions with the Secretary to the UK Treasury, Sir Nicholas McPherson, and with Sir Suma himself.

In my discussions with Sir Nicholas he indicated that the UK was pushing hard for the position, but at that stage considered that they had only a 30 to 40 per cent chance of winning. He also suggested that they did not expect an agreement to be reached at the EU Finance Ministers Meeting (Ecofin), although some EU members were pushing for such an agreement. The UK at that stage was also of the view that the option of an alternative (and stronger) French candidate was a significant possibility.[3]

My discussions with Sir Suma were more focussed on the campaign and his view of the role of the President.

He said that the Chair of the Board of Governors, Austrian Finance Minister Maria Fekter, had advised the UK that the position had been de-linked from other European finance positions. However, it was far from clear what this meant as the Minister also indicated she was hoping to gain agreement (presumably amongst EU members) within two weeks. There was no indication that she had any interest in the views of non-EU members.

His view of the state of play was that there was a widespread view that Mirow, the current president, would be likely to receive majority support if he could gain the support of his own government. However, this still appeared unlikely. The UK believed that Russian support for Mirow was based on agreement that Mirow would appoint a Russian to fill the vacant Vice-President position. Further, he expressed the view that de Fontaine Vive was still considered the favourite as the majority of EU members began the process with the view that this was a "French" position.

Sir Suma's views with regard to the minor candidates were that the Polish candidate was receiving some support from Eastern European countries. This may have been significant in the event of a first-past-the-post election (at this stage the procedures had not been established). There were at this stage no indications of support for Mr Djelic, but it was possible a small number of Balkan countries may support him.[4]

As a result of my discussions with the UK (and others) I advised the Australian Treasury that "a weak French candidate has created a window of opportunity. The French have more cards to play if they choose to do so. The prospect of Chancellor Merkel supporting Mirow is a very remote possibility." [5]

I made a note subsequently on the state of the presidential race, which drew some inferences about the state of the various campaigns:

"There continues to be much conversation about the EBRD Presidency. This week I have had a number of people keen to inquire after my health and welfare. As I interpret this sudden interest, it appears to have been two emissaries for President Mirow and one for de Fontaine Vive. Arising from these discussions I have concluded that people would wish me to believe that Germany remains in discussions with Mr Mirow and may support him at a later stage. At least they have not requested him to withdraw. The possibility exists that he may be the compromise that the various European interests can eventually agree upon.

"The advocates for the French candidate insist that the French are optimistic on behalf of their candidate and some see him as a potential vehicle to strengthen the hand of the Board vis a vis the management. The possibility of a new and better French candidate is still alive.

3 From the author's notes of a conversation with Sir Nicholas McPherson.

4 From the author's notes of a conversation with Sir Suma Chakrabarti.

5 From the author's report to the Australian Treasury, dated 26 April 2012.

"None of the interlocutors saw any prospect of success for the Polish or Serbian candidates.

"There remained strong resistance to the idea of a British president although the strength of Sir Suma as a candidate is acknowledged. Some saw his strength as highlighting the weakness of the French candidate and therefore indirectly helping Mirow." [6]

PROCEDURAL ISSUES

These developments necessitated significant procedural considerations by the Board of Directors and its committees.

The most significant discussion was about the voting and counting system. There were also important considerations before that about whether and, if so, when to hold preliminary discussions with the candidates.

Preliminary hearings

The decision was made to hold preliminary hearings on the day before the Annual Meeting at which the vote would be taken. At this preliminary session, leadership candidates were able to address the shareholders' representatives and respond to their questions.

This turned out to be more than a "going through the motions" event. As a consequence of the opportunity to address the issues surrounding the future of the EBRD, and in response to some detailed questions, I am in no doubt that the French candidate reinforced the perceptions of him as a weak candidate. It was also clear to me that Sir Suma improved his support level as a result of his presentation. Mirow gave a competent and thorough presentation which made it clear that if he had been supported by Germany he would have won, and been a worthy winner. Djelic raised his profile as a candidate to be watched, although perhaps for the future rather than immediately. The Polish candidate gave the sort of accomplished and knowledgeable performance one would expect from a former Prime Minister who had also been an Executive Director at the EBRD.

6 From the author's report to the Australian Treasury, dated 12 April 2012.

Voting and counting

The difficulty in determining the voting and counting system was created by the requirement in the agreement establishing the bank that the successful candidate receive a double majority. That is, to be elected the candidate requires the support of a majority of shareholders, representing a majority of the voting power.[7]

Given the unique character of this election there was no obvious precedent that the management could call upon. The key question to be resolved was how to apply the double majority requirement in a fair way to decide which candidate should be eliminated at the end of each round of voting.

There was a genuine attempt by other directors to come up with a fair and reasonable method of reconciling these two requirements. However, they were all too complicated or were flawed in some way.

Therefore, I proposed that the result in each category should be reduced to a percentage, thus making both requirements of equal weight. If these were summed at the end of each round the candidate with the lowest total would be eliminated.

This proposal was adopted and applied successfully in the ballot.

7 See Agreement Establishing the EBRD.

Table 3: Voting results by round

Round 1	Votes	%	Voting power %	Total	Result
Bielecki	7	10.77	5.63	16.40	
Chakrabarti	18	27.69	48.09	75.78	
Djelic	6	9.23	5.26	14.49	**Eliminated**
Fontaine Vive	17	26.15	26.56	52.71	
Mirow	13	20	8.15	28.15	

Round 2	Votes	%	Voting power %	Total	Result
Bielecki	8	12.31	9.79	22.09	**Eliminated**
Chakrabarti	24	36.92	50.54	87.46	
Fontaine Vive	16	24.62	26.39	51.01	
Mirow	20	20	6.97	26.97	

Round 3	Votes	%	Voting power %	Total	Result
Chakrabarti	34	52.31	55.09	107.4	**Elected**
Fontaine Vive	15	23.07	28.64	51.71	
Mirow	12	18.46	9.95	28.41	

FUTURE REFLECTIONS

It took an extraordinary conjunction of events to jolt the EBRD out of its comfortable certainty surrounding the choice of presidents.

It is unlikely such a conjunction will occur again. It is also unlikely that such a process will be accepted as the norm. However, some shareholders, particularly countries of operation (COO), have had a taste of the power and influence such a contest gave them. They will not necessarily give it up lightly.

France, Germany and the EU have a strong interest in restoring the previous understanding. My experience of the debate surrounding the 2012 election suggests there is significant sympathy for the Franco-German deal amongst at least some of the non-COO EU members.

The circumstances surrounding subsequent changes of leadership at the World Bank, the IMF and the ADB suggest that the attraction of a free and open ballot will have limited appeal to the major shareholders.

Therefore, I am pessimistic that this very desirable incident will become the basis for continuing reform without shareholder activism.

My suspicions in this regard are reinforced by the alacrity with which France expressed its support for the re-election of Sir Suma as reported in Reuters on 3 March 2016. This had all the outward appearance of a deal; Sir Suma this time, the French candidate next time.

It is certainly the case that Brexit means that President Chakrabarti will be the first and last UK President of the EBRD.

However, even if it should prove a one-off event, it had some positive elements.

At the very least it suggests to the beneficiaries of leadership deals around this and other IFIs that they will have to focus on delivering a suitable candidate or risk facing a contested election with unpredictable results.

There are also some positive indications of a willingness to continue with the free and open selection.

First, Poland put forward a strong candidate to contest the UK candidate's re-election in 2016. He was unsuccessful and the result was an overwhelming endorsement of the status quo. But it was another contested election and was the second time in a row that Poland had put forward a strong candidate.

Second, in addition to Poland there are some other large shareholders that are EU member states, and at least one of them might well consider the possibility of challenging the Franco-German hold over the position.

There is no doubt that some of the EU member recipient country members enjoyed the experience and would like to see it repeated. Poland has the largest shareholding, but would need more support to be able to mount a campaign. In anything other than the most extraordinary circumstances this is likely to lead to an agreement with the successful candidate rather than a victory for a recipient country candidate. Nevertheless, such a strong candidature would be healthy for the organisation and any deal would have significant implications for the future of the EBRD.

The other wildcard is Russia. They are understandably irritated by the EBRD Board decision to cease doing business in their country. And they have shown a capacity to make mischief in elections more significant than the presidency of the EBRD. It is unlikely that there would be a Russian candidate, and if there was it is extremely unlikely that such a candidate could win. But with a few friends such Belarus and Tajikistan, they could achieve significant support for any challenger.

So, it was a fascinating exercise to observe. It may have been a one-off, but if so it did some good in the short-term and fired a warning shot for future selections in the EBRD and other IFIs.

There is a chance that shareholders having developed a taste for a little democracy may want more.

RECOMMENDATIONS

There is no point in trying to rewrite the rules to require a free and open ballot at IFIs. It is and always will be a geopolitical decision.

But this need not mean that nothing can be done. There are precedents in other multilateral institutions which give some encouragement that judicious interventions might be possible from time to time.

For example, Australia offered bipartisan support to a Korean candidate, Taeho Bark, for Director General of the World Trade Organisation, which was otherwise heading towards the selection of an uncontested European candidature. This Korean candidacy was ultimately unsuccessful, but some concessions were gained and subsequent choices have been more open.

Australia also supported a Canadian candidate, Donald Johnston, for Secretary General of the Organisation for Economic Co-operation and Development (OECD). This candidate was successful.

These examples suggest that from time to time change in what appear to be predetermined arrangements are possible.

Australia (or other interested countries) should remain alert to the possibility of circumstances arising which make a free and open elections a possibility in the relatively few IFIs of which Australia is a member.

We should also consider alternative options to the status quo, such as an Asian candidate for the leadership of the IMF, when vacancies arise.

And finally, the redistribution of voting power in IFIs to reflect contemporary economic realities should be supported—particularly where such changes have the potential to open up opportunities for genuinely contested ballots in the future.

ABOUT THE AUTHOR

Bob McMullan is a Visiting Fellow at Crawford School of Public Policy and an Associate of the Development Policy Centre. He has had a long and distinguished career in the Australian Parliament as one of Australia's pre-eminent Labor politicians. He is a former Parliamentary Secretary for International Development (2007-2010) and Executive Director for the European Bank for Reconstruction and Development.