The International Monetary Fund’s executive board is undergoing the biggest reshuffle in two decades in a shift emerging markets including Brazil say remains insufficient to reflect their rising economic power.

Starting next month, some western European countries are realigning to give nations such as Turkey and Hungary more say under a 2010 pledge to give up two seats on the 24-seat board. Changes are also taking place among emerging markets, with Colombia leaving Brazil’s group to join Mexico’s.

The overhaul reflects “significant economic realignments at the global as well as regional levels,” said Eswar Prasad, a Cornell University professor and a former IMF official. “Small countries are jockeying for position to make sure their voices are heard while some of the larger but less dynamic economies are trying hard to preserve their clout despite their diminishing economic significance.”

The changes are the largest since the early 1990s, when the Soviet bloc collapsed and a flurry of new countries joined the fund. The attempt this time is to give more clout to economies representing a growing share of the world’s economy just as the IMF’s 188 member countries clash over how to calculate voting rights in 2014.

“Emerging markets remain concerned about the slow pace of reforms of the governance structure of the IMF,” Prasad said.

2010 Pact

The 2010 agreement on Europeans’ board representation is part of a package that also boosts emerging economies’ voting rights and makes China the fund’s third-largest member country. It hasn’t yet come into effect, mainly because the U.S., the IMF’s largest shareholder, has not ratified it.

European nations including Belgium and the Netherlands are implementing changes starting Nov. 1. The plan, which partly relies on a system of rotation between emerging and developed economies, was called “cosmetic” by Brazilian Finance Minister Guido Mantega, who says they advantage eastern European countries and Europe as a whole.

“This of course fails to correct the over-representation of Europe in the board, sending yet another negative signal to the outside world,” he said in a speech to the IMF’s steering committee convening in Tokyo.

The IMF executive board’s two dozen executive directors are appointed or elected by countries or groups of nations, and Managing Director Christine Lagarde or her deputies serve as the chair. The panel typically meets several times a week, making decisions largely based on the work of the fund management and staff.
Dutch Shuffle

Belgium, Luxembourg and the Netherlands have said they are forming their own group, along with countries currently represented by the Netherlands. That helps Turkey, the Czech Republic and Hungary as part of an agreement to rotate with Austria for executive director.

The chair of Nordic countries will extend its rotation to Baltic members of the group and Switzerland will rotate with Poland starting in a few years, officials from those countries have said.

“The executive board is really the policy-making body of the institution,” said Domenico Lombardi, a senior fellow at the Washington-based Brookings Institution who has served on the executive boards of the IMF and World Bank. “If you have a stronger voice in the executive board, you end up affecting the policies and the program of the institution.”

Colombia’s Shift

That may have helped drive Colombia away from Brazil. The country, which was an alternate director under Brazil, will rotate with Mexico, Venezuela and Spain for the executive director’s job, Mexican Deputy Finance Minister Gerardo Rodriguez said in an interview yesterday.

The board election for 19 of the 24 directors took place last week with effect Nov. 1. Results also show that Nicaragua, Cape Verde and East Timor will move to Brazil’s constituency, according to an IMF document obtained by Bloomberg News.

The elections also came with the surprise candidacy of former Jordanian Finance Minister Umayya Toukan, bringing the number of candidates to 20 for 19 elected chairs. The U.S., Japan, France, Germany and the U.K. currently appoint their director. Toukan, who was picked by Qatar and Syria, was not elected, the document shows.

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