



Independent Evaluation Office
of the International Monetary Fund

BACKGROUND PAPER



BP/08/04

The Role and Evolution of Executive Board Standing Committees in IMF Corporate Governance

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IEO Background Paper
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IMF Corporate Governance**

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April 2008

Abstract

Numerous attempts have been made to improve the effectiveness of standing committees of the Executive Board, but considerable dissatisfaction remains with their performance, particularly among members of the Board itself. Interviews, survey data, previous reviews of the Fund's Executive Board committee structure, principles of good corporate governance, and experience in other multilateral institutions all suggest that these committees could make a more effective contribution to the Fund's internal governance. The paper analyzes the factors that undermine the committees' effectiveness and provides recommendations on how to address them. These include measures to encourage executive directors to take stronger ownership of Board committees, changes to the overall committee structure, and improvements in work practices.

The views expressed in this Background Paper are those of the author(s) and do not necessarily represent those of the IEO, the IMF or IMF policy. Background Papers report analyses related to the work of the IEO and are published to elicit comments and to further debate.

JEL Classification Numbers:

Keywords: Executive Board, Committees, IMF Governance

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ABBREVIATIONS

APC	Agenda and Procedures Committee
CAP	Committee on Administrative Policies
CAR	Committee on the Annual Report
COB	Committee on the Budget
CAM	Committee on Executive Board Administrative Matters
CLWTO	Committee on Liaison with the World Trade Organization
CoI	Committee on Interpretation
EDs	executive directors
GATT	General Agreement on Tariffs and Trade
ITO	International Trade Organization
MD	Managing Director
WTO	World Trade Organization

EXECUTIVE SUMMARY

Considerable dissatisfaction exists with the performance of IMF Board committees, particularly among executive directors. Despite their potential to improve the efficiency and effectiveness of the IMF's corporate governance, little of the Board's work is done at the committee level. While there have been recent changes, scope remains for further improvement. A number of factors have been identified as constraining the contribution of Board committees to the efficiency and effectiveness of IMF institutional governance, including:

- Gaps in the current Executive Board committee structure;
- A lack of trust among non-committee members that their concerns will be taken into account in committee deliberations;
- No systematic attempt to explicitly specify, and promote the acquisition of, the experience and skills considered desirable for membership in particular committees;
- Insufficient continuity on some committees; and
- No regular and systematic assessment of the adequacy of the committee structure or of the performance of committees.

To address these, and other shortcomings, this paper recommends a number of changes intended to enhance executive directors' ownership of the Board's committee structure. These would improve Board efficiency and effectiveness by encouraging, where appropriate, the use of "lapse-of-time" approval by the Board and creating more regular opportunities for executive directors to "brainstorm" on important policy issues independently of management. Key reform recommendations include:

- The creation of three new committees: 1) an Audit Committee; 2) a Risk Management Committee; and 3) a Human Resource Policy Committee;
- Requiring all committees of the IMF Board to be chaired by an executive director;
- Clearly articulating the committee-specific skills and experience considered desirable for committee members and adopting a more regular and systematic effort to identify targeted training needs for new members of particular committees.
- Extending term limits beyond two years but applying them to constituencies rather than individual directors; and
- Undertaking regular (preferably annual) evaluations of the effectiveness of individual committees.

I. INTRODUCTION¹

1. Throughout the IMF's history, committees of the Executive Board have been considered a potentially useful tool of institutional governance and oversight by the Executive Board. The Fund's Articles of Agreement give both the Board of Governors and the Executive Board the authority to establish any committees that they deem "advisable."² Over the years, Board committees have evolved considerably in coverage and operations, reflecting changes in institutional and membership priorities as well as increases in the size of the Executive Board. Numerous attempts have been made to improve their overall effectiveness as tools for Executive Board oversight, but considerable dissatisfaction remains with their performance, particularly among executive directors³, and as a result, little of the Executive Board's work is done at the committee level. In January 2008, the Executive Board adopted a number of changes recommended by a Working Group of Executive Directors on Board Committees but scope remains for further improvement.

2. This paper reviews the evolution of the system of Executive Board standing committees, covering issues of membership, chairmanship, mandate, coverage, and their relationship to management and the Executive Board.⁴ It draws on survey data, interviews, and sources on good practice in corporate governance in an effort to identify shortcomings in current practice and ways to improve the effectiveness of IMF Board committees in supporting the Executive Board in fulfilling its mandate. Section II discusses the role of board committees in the Fund and within the public and private sectors, and Section III describes the various committees and the motivation for creating each one. Sections IV and V analyze the experience with committee membership and committee chairs, and Section VI

¹ The author would like to thank Thomas Bernes, Ruben Lamdany, Leonardo Martinez-Diaz, Nils Bjorksten, Alexander Mountford, and Joanne Salop for helpful comments and suggestions. The author is also grateful to Borislava Mircheva, Roxana Pedraglio, and Alisa Abrams for excellent research assistance, Rachel Weaving for insightful editorial suggestions, and Annette Canizares, Arun Bhatnagar and Jeanette Abellera for administrative assistance. Remaining errors are solely the responsibility of the author.

² "The Board of Governors and the Executive Board may appoint such committees as they deem advisable. Membership of committees need not be limited to Governors or Executive Directors or their Alternates." IMF Article XII, Section 2 (j).

³ An IEO survey of current and former members of the Executive Board, conducted in December 2007, indicates that almost two-thirds of respondents believe that significant changes in structure and operations would be needed for Board committees to be effective. Only one-quarter considered them to be effective. About 8 percent of respondents considered Board committees to be unnecessary and called for them to be de-emphasized or phased out.

⁴ While the focus of this paper is the Board's standing committees, a number of other committees have been established on an as-needed basis. They include the Committee on Membership (to consider a country's application for membership), the Committee on Rules for the Election of Executive Directors, and the Committee on the Ad Hoc Quota Increase of a Member Country. Periodically, the Board also convenes working groups of executive directors for specific purposes (e.g., drafting a Code of Conduct for executive directors, reviewing Management's compensation package, reviewing the Board's committee structure).

notes the findings of previous reviews. Section VII highlights factors that may be undermining committees' effectiveness and Section VIII makes recommendations for improvement, so that committees can make a greater contribution to the Fund's internal governance. Section IX concludes.

II. ROLE OF BOARD COMMITTEES

3. While Board committees have been part of the IMF's internal governance structure throughout the Fund's history, only a small portion of the Board's work is carried out in committee. Between 2003 and 2007, for example, there were only 24 committee meetings, on average, per year, compared with almost 400 meetings of the Executive Board.⁵ With a few exceptions, only the Executive Board can take decisions on behalf of the IMF;⁶ committees can only make recommendations to the full Executive Board.⁷

4. Even within this constraint, experience in both the public and private sectors, including in other inter-governmental organizations, shows that specialized board committees have the potential to increase board efficiency and provide directors with a valuable tool for frank discussions of often complex issues and, where necessary, to conduct discussions independently of management. The contribution of board committees to good corporate governance was highlighted in the US-based Business Roundtable's *Principles of Corporate Governance*, which noted that "virtually all boards of directors of large, publicly-owned corporations operate using committees to assist them. A committee structure permits the board to address key areas in more depth than may be possible in a full board meeting" (Business Roundtable, 2002: 14).

5. An important caveat on the use of board committees can be found in the OECD *Principles of Corporate Governance*, which states that:

While the use of committees may improve the work of the board they may also raise questions about the collective responsibility of the board and of individual board members. In order to evaluate the merits of board committees it is therefore important that the market receives a full and clear picture of their purpose, duties and composition...The accountability of the rest of the board and the board as a whole should be clear. (OECD, 2004: 6)

⁵ "Selected Workload Indicators of the Executive Board, 2003–07," IMF Secretary's Department. This includes both formal and informal meetings, but excludes informal policy seminars.

⁶ There are limited exceptions (e.g., for the Pension Committee, Ethics Committee, and Committee on Administrative Matters).

⁷ Rule C-11 of the IMF's Rules and Regulations stipulates that "there shall be no formal voting in committees and sub-committees."

6. In the case of IMF Executive Board committees, the concern about the accountability of non-committee members on the Board is clearly addressed by the fact that only the full Board can take decisions. There is, however, scope for greater transparency on the “purpose, duties and composition” of committees. For example, neither the Fund’s *Annual Report* nor its external website systematically provides information on the mandate, work program, or membership of Executive Board standing committees. The World Bank, in contrast, publishes information in its *Annual Report*, and on its external website, on each of its Board standing committees’ activities and membership. The African Development Bank publishes information on the activities of its Board committees in its *Annual Report*.

III. INDIVIDUAL STANDING COMMITTEES AND THE MOTIVES FOR THEIR CREATION

7. Since the Fund’s creation, new committees have been created, others have become dormant though they remain in existence, and still others have been abolished completely (Annex 1). Most, but not all, of the committees are chaired by executive directors. All committee meetings may be attended by executive directors who are not committee members and they are free to speak if they so desire⁸. In practice, few if any IMF committees have made a significant distinction between members and non-members either in their proceedings or in reporting on directors’ views.

8. Though each committee was created for a distinct reason or set of reasons, the most frequent motivations for creating committees have been:

- A desire by executive directors to have more influence on decision making by providing staff and management with feedback and guidance prior to formal consideration of an issue at the Executive Board;
- The need for a forum in which executive directors can less formally discuss detailed, more technical, or more complex issues, and thereby provide better advice to their authorities and inform and focus subsequent Executive Board discussions;
- With the Executive Board chaired by the Managing Director, committees chaired by executive directors allow for regular discussion of issues independently of management, giving directors full control over the timing of meetings and agendas and the formulation of recommendations;
- Committees provide a vehicle to discuss some issues pertaining to the operations of the Executive Board or independent evaluation; and

⁸ In January 2008, the Executive Board expressed its intention to amend Rule C-5(2) of the Fund’s By-Laws to indicate that “it is not normally expected that non-Committee members would speak at Committee meetings,

(continued...)

- By promoting a division of labor among executive directors, committees can enhance the Board's efficiency.

A. Committees Established 1947–69

9. Only three Board committees existed in the Fund's first few years: the Committee on Interpretation (established in 1947), and the Committee on Liaison with the International Trade Organization (ITO) and the Pension Committee (both established in 1948). The Board's small size at that time (12 executive directors) likely allowed issues to be discussed easily by the full Executive Board, often with the benefit of periodic informal sessions to encourage more open discussion.

10. Each of these three committees was established for somewhat different reasons. The need for the *Committee on Interpretation (CoI)* (of the IMF Articles of Agreement) likely reflected the Fund's early stage of development. As a wholly new international organization, the Fund had no outside body or precedents that could help clarify the meaning of its statutes. The CoI, chaired by an executive director, provided a channel for its shareholders (and founders) to shepherd the Fund's mandate by retaining control over the interpretation of its founding documents.⁹ The CoI still exists but has not met in almost 50 years.

11. The *Committee on Liaison with the ITO*, also chaired by an executive director, provided a vehicle for shareholders to directly manage the evolving relationship with the Interim Committee of the International Trade Organization, which was to have been one of the Bretton Woods "sisters."¹⁰ In early 2008, the CLWTO, as it had then become, was replaced by the Committee on Liaison with the World Bank and Other International Organizations, with a mandate to promote greater coherence in the international economic, financial, trade, and development agenda by "tak[ing] stock of developments in the policies and programs of other international organizations with complementary mandates to that of the Fund..." The expanded mandate also reflected a formal acknowledgement by the Executive Board that weak Bank-Fund collaboration was a significant determinant to the effectiveness of each institution.¹¹

but rather, that such non-members' interventions would address issues or perspectives not otherwise put before Committee members" (EBD/08/10). However, legal language to enact this intention has yet to be adopted.

⁹ A Committee on Interpretation was also created within the Board of Governors.

¹⁰ With the failure of negotiations to establish the ITO, this committee was renamed the Committee on Liaison with the Contracting Parties of the GATT in 1950. The Chairman of the Committee led IMF delegations to GATT consultations. Over time, and as the parameters of the relationship were established and clarified, this task was delegated to IMF staff.

¹¹ This issue was highlighted in the Final Report of the External Review Committee on Bank-Fund Collaboration (The Malan Report), February 2007.

12. The *Pension Committee* was established in 1948 “to decide all matters of a general policy nature arising under the Staff Retirement Plan.” Uniquely among the Board standing committees, this is constituted as a joint committee with the Managing Director and IMF staff—a configuration dictated by the terms of the Staff Retirement Plan, reflecting the collective interest in the Plan’s administration.

13. The *Committee on Executive Board Administrative Matters (CAM)* was created in 1951 to formalize a series of ad hoc committees that had been established to address various administrative issues involving executive directors and their staff (including, for example, office size and EDs’ travel).¹² The motivation for creating the CAM was a desire to deal with issues pertaining exclusively to EDs and their staff (and therefore not of direct concern to the mandate of the Fund) more efficiently and in a less formal setting than the full Board allowed. The CAM was initially composed of the most senior EDs and its recommendations were usually sent to the full Board for approval on a lapse-of-time basis.

14. The *Committee on Administrative Policies (CAP)* was created in 1969 to consider questions of Fund-wide administrative policy that required action by the Executive Board and that were referred to it by the Managing Director or by the Board itself (e.g., staff medical benefits, education allowances). Issues pertaining to the administrative budget or general salary increases were explicitly excluded from its terms of reference.¹³ Chaired by the Managing Director, the CAP was created to help improve efficiency and reduce the length of discussions in the Board on matters that required a Board decision but did not necessarily warrant the full Board’s attention. Not all directors were convinced that the CAP would achieve this objective and they agreed only reluctantly to its establishment.

15. The CAP was abolished in December 2006, as part of an effort by EDs to streamline the committee structure. Among the reasons cited were that it had not met since December 2001 and that since that time, administrative policy issues were being discussed within the Board itself. It is not clear why the CAP became inactive after 2001. It seems to have played an effective and significant role, as suggested by the fact that many of its recommendations were approved by the full Board on a lapse-of-time basis, without further deliberation. Moreover, after 2001, executive directors were actively discussing a comprehensive review of benefits for IMF staff, holding twelve Board meetings on this subject in 2005 and a further seven in 2006. Since the abolition of the CAP, no Executive Board committee has had a mandate to consider human resource and administrative policy for the Fund, more broadly.

¹² The Board of Governors of the IMF and World Bank has established a Joint Committee on Remuneration of Executive Directors and their Alternates, with responsibility for considering “all matters affecting the remuneration and other benefits of the Executive Directors of the Bank and Fund, and of their Alternates.”

¹³ This was accepted by the Board despite pressure from at least five executive directors to have these budget and salary issues included in the mandate. See, for example, “Mr. Palamenghi-Crispi’s Statement on Proposal to Create a Committee on Administrative Policies,” Executive Board Meeting 69/94, October 13, 1969.

16. No new standing committees were established in the 25-year period to 1994.

B. Committees Established 1994–Present

17. Until the creation of the *Committee on the Budget (COB)* in 1994, budget issues had been discussed in the full Board. On several occasions during Board discussions of the budget, a number of EDs expressed dissatisfaction with the late stage at which directors were being brought into IMF budget process. After the Committee’s establishment, disagreements about its mandate (among EDs and with Management) constrained its ability to improve the budgeting process. At least at the outset, the COB operated largely as a discussion forum for EDs rather than as an opportunity to provide necessary input into the budget process, much to the frustration of a number of its members. Leading up to—and because of—the creation of the COB, tensions arose between management and EDs with respect to the division of power and responsibility within the Fund. This makes the COB experience an interesting case study of the character of IMF internal governance. Annex 2 reviews the COB’s origins and subsequent evolution.

18. An *Agenda and Procedures Committee (APC)* was established in 1998 to “consider ways to avoid undue bunching in the Board’s schedule, and to allow adequate time for preparation by executive directors and efficient use of time spent in Board meetings,” but its mandate and status as a standing committee were not formalized until two years later. To some extent, the APC emerged out of discussions during the 1997 EDs’ retreat, organized by the Dean of the Executive Board, during which many executive directors and alternates expressed concern with frequent changes in meeting agendas and a lack of sufficient notice of discussions of important policy and country issues. The new Committee would, it was hoped, provide a forum for EDs to interact directly with the Secretary who was encouraged “to plan the Board’s calendar according to the wishes of the Board, rather than the staff and management”.¹⁴

19. The *Ethics Committee* was created in 2000 to consider matters related to the recently adopted Code of Conduct for Members of the Executive Board and to give guidance to those covered by the Code: executive directors, alternates, and senior advisors. Given the potentially sensitive nature of its deliberations, the Ethics Committee’s meetings are restricted to committee members. But to date, it has not met to discuss a case of ethical misconduct nor does it have any written procedures on how cases should be dealt with.¹⁵

¹⁴ Summary Record of the first meeting of the APC, Meeting 01/1, January 11, 2001.

¹⁵ In February 2005, the Committee sought Board approval to hire an external consultant to assist in carrying out its functions (see EBAM/05/22). However, the chair who oversaw this initiative left the committee and the new committee chair, who took over in June 2005, did not pursue the issue.

20. The *Evaluation Committee*, established in 2002, evolved out of the pre-existing Evaluation Group of Executive Directors and reflected the Board's desire to formalize an independent evaluation function within the Fund. The Fund had established the Evaluation Group in the mid-1990s to oversee the Board's experimentation with independent external evaluation of IMF policies and operations. The transformation of the Group into a standing committee of the Board, chaired by an executive director, followed the Fund's establishment of a permanent Independent Evaluation Office (IEO). IEO operates at "arms length" from the Executive Board and is wholly independent of IMF management.

21. The short-lived *Induction Committee* was formally constituted in December 2000 following the release of a report prepared by an Informal Committee on EDs' Induction,¹⁶ which had been set up in early 2000 with a mandate to consider and propose improvements to the orientation of incoming EDs and alternates. The Induction Committee was composed of EDs, with a representative of the Secretary's Department serving as its secretary. It was established around the time that the Executive Board experienced a sharp increase in turnover. The Induction Committee was abolished in November 2002 and instead the Secretary's Department undertook to coordinate a series of workshops for new Board members to discuss procedures and practices for decision making in the Fund. These workshops have featured presentations by senior IMF staff and incumbent members of the Board and have covered a range of issues, including the Executive Board's Code of Conduct and the summing up procedures for Board discussions. Their content has evolved, partly in response to feedback from participants. With such a process in place, it may have been felt that a formal Board committee was no longer necessary.

22. The creation of the *Committee on the Annual Report (CAR)* in 2004 was motivated by several considerations. In part, it was a response to the results of a survey undertaken by the IMF that showed that the IMF's *Annual Report*—one of the major vehicles of Executive Board accountability—was being read by a surprisingly small share of its target audience.¹⁷ This finding motivated a number of executive directors to call for a fundamental rethink of the report's format and content. There were also perceived efficiency gains from having a Board committee oversee the preparation of the *Annual Report*. Previously, the full Board had met in lengthy sessions chaired by management to review—paragraph by paragraph—a draft text prepared by IMF staff. With the creation of the CAR, these discussions would take place in a less formal, ED-led forum, with the final product sent to the Executive Board for approval on a lapse-of-time basis.¹⁸

¹⁶ "Induction of EDs/AEDs into the Fund: Report to Directors by the Induction Committee," November 2, 2000.

¹⁷ The preparation of an Annual Report of the Fund is required by Article XII, Section 7(a) of the IMF's Articles of Agreement.

¹⁸ "Committee on the Annual Report – Summary Record of Meeting 05/01", EB/CAR/Mtg/05/1, February 15, 2005, p. 2.

IV. COMMITTEE MEMBERSHIP

23. By tradition, standing committees are reconstituted following the general election of executive directors (i.e., every second November).¹⁹ Reconstitution is based on a recommendation from the MD (acting in his capacity as Chairman of the Board), in consultation with the Dean of the Board (who, by current convention, is the longest-serving executive director), and approved by the Board.²⁰ If a committee member leaves the Board other than at the time of regular elections, a successor is proposed in consultation with the Dean, conditional on the Board's approval. Throughout much of the Fund's history, a practice of inheriting seats was in place, whereby the replacement for a departing ED assumed the committee seats that the ED had previously occupied. This practice was discontinued in the late 1990s, at the request of the Dean, in an effort to facilitate the replacement of departing members with executive directors who had particularly relevant experience and skills. But it was reinstated in January 2008 on the basis of a recommendation of the Working Group of Executive Directors on Executive Board Committees, in the form of a presumption that EDs arriving mid-term would assume their predecessors' committee memberships, in order to encourage "active engagement" by new EDs and to promote "diversity."²¹

24. The adoption of formal criteria for committee membership has been discussed on several occasions but efforts at codification have been resisted.²² At the close of one such discussion, the Chairman expressed the view that "...no formula could be applied to help with nominating committee members, because the requirements for differing committees were diverse..."²³ Nevertheless, over time, several informal principles have been accepted to guide the selection process:²⁴

¹⁹ The rules governing the Pension Committee, which are set out in Section 7 of the IMF Staff Retirement Plan, require annual election of members, who are drawn from EDs and staff.

²⁰ In contrast, the Chair of the World Bank Board (the President of the Bank) plays virtually no role in the selection of committee members. Rather, extensive consultations take place between the Secretariat and EDs to arrive at a balanced and equitable distribution of responsibilities. If there are serious disagreements, the Dean of the Executive Board plays a role in trying to reconcile differences.

²¹ "Structure and Mandates of Executive Board Committees," January 24, 2008, EBD/08/10.

²² Perhaps reflecting the more extensive use of committees in the World Bank's governance structure, the principles and guidelines on committee membership were systematically set out in 1994. This was done in what is generally referred to as the "Maehlum Report," prepared by an Ad Hoc Committee of Executive Directors (World Bank, 1993-94). The resulting guidelines were reviewed and updated in October 2006.

²³ EBM/70/97, November 4, 1970.

²⁴ For example, see "Selection of Members to Serve on Executive Board Standing Committees and the Pension Committee," Secretary's Department, October 17, 1980, EBD/80/274.

- geographic balance in committee composition;
- rotation among EDs of opportunities to serve on a particular committee;
- some degree of continuity in committee membership;
- sharing the burden of committee work among EDs;
- relevant experience;
- seniority within the Executive Board;
- willingness to serve; and
- preferences and interests of individual executive directors.

25. Perhaps reflecting the large number of informal principles, there has been some discontent with a perceived lack of transparency and accountability in the selection process. But a critical mass has yet to emerge in favor of formalization. This may be because, in practice, few if any IMF committees make a significant distinction between members and non-members either in their proceedings or in reporting on directors' views.

26. The following discussion looks at how these principles were applied during the period November 2000 to September 2007.

A. Geographic Balance

27. Most of the committees had a regionally balanced membership. There was also a broad balance among directors from industrial, developing, and emerging market economies on most committees, although this was not an explicit principle for membership.²⁵ Africa, despite having only two EDs representing the region, was consistently represented on most committees except for Pension, Ethics, and the APC.

B. Continuity and Rotation

28. There is evidence of significant rotation of committee assignments, with major changes in membership occurring on a regular basis. This was particularly the case on the COB which, unlike other committees, has a term of only one year for its members. Among the most active committees (COB, CAM, Ethics, Evaluation, Pension), the average tenure of membership for an individual executive director between 2000 and 2007 ranged between

²⁵ With two exceptions—the Agenda and Procedures Committee—a small majority of whose members were consistently from industrial countries, and the (relatively inactive) Committee on Liaison with the World Trade Organization, on which developing countries consistently formed a clear majority.

1.5 years (Evaluation Committee) to 2.0 years (Ethics Committee) (Table IV.1). Measured by constituencies represented on committees (rather than individuals), average tenure was somewhat longer, ranging from 1.8 years (Evaluation Committee) to 2.8 years (Pension Committee). However, in several instances, particular constituencies maintained their committee membership for extended periods.

Table IV.1. Average Tenure on Board Committees, 2000–07

Committee	Average Tenure (in years)	
	By individual executive director	By constituency
Administrative Matters (CAM)	1.7	2.3
Budget (COB)	1.7	2.2
Ethics	2.0	2.2
Evaluation	1.5	1.8
Pension	1.9	2.8

Sources: Executive Board Documents, IEO staff estimates.

29. This has occurred despite guidelines on the maximum number of committee members permitted to serve a second term. Many (though not all) of the instances of constituencies maintaining membership for prolonged periods have fallen within the guidelines on term renewal, because the guidelines refer to individual executive directors rather than to constituencies, and the replacement of an executive director by his/her successor on a committee has therefore been interpreted as the start of a new term. But while respecting the “letter” of the diversity or rotation objective, this practice appears to undermine its spirit.

C. Sharing the Burden of Committee Work

30. Committee memberships appear to have been evenly distributed among EDs. There are currently 55 committee seats, implying an average of 2.3 memberships per ED. Three-quarters of EDs are on either two or three committees, with two EDs holding four committee memberships each and a further two holding no memberships.²⁶ This is a more even distribution than in 1970 (when the number of memberships per ED averaged 1.9 per ED and ranged from none to five), but it is less even than in 1980 (when memberships per ED averaged 2.1 and most EDs sat on two committees each).

²⁶ This is likely a temporary phenomenon, partly reflecting the recent arrival of new EDs, as reconstitution was being delayed at the time of writing, pending the presentation of the report of the Working Group of Executive Directors on Executive Board Committees in January 2008.

31. These averages do not, however, convey the significant variation in the level of activity across committees. For example, between January 2000 and September 2007, the COB met 31 times, the APC 29 times, the CAM 21 times, the Evaluation Committee 18 times, the Pension Committee 14 times, and the CLWTO 6 times, and the Committee on Interpretation did not meet at all.

32. In practice, EDs (or their staff) attended all Executive Board committees (except the Ethics Committee) regardless of their membership status. As such, the actual effort that directors devoted to committee work may not have conformed to their formal membership or the number of committee memberships. That said, EDs who were committee members were more likely to participate in committee meetings themselves, rather than via their alternates or advisors. For example, the attendance records for the most active Board committee—the COB—show that, on average, around half of the EDs who were COB members attended the committee meetings, whereas only one quarter of EDs who were not COB members attended. Four-fifths of committee members were represented by their ED or alternate, on average, compared with just under two-thirds of non-members. The remainder of the constituencies were represented by advisors to EDs.²⁷

D. Skills and Experience

33. Given the specialized nature of the work of a number of the committees (e.g., Budget, Pension, Ethics, or Administration), relevant expertise is likely to be important if committees are to be effective. The importance of having mechanisms in place to ensure that directors have the skills necessary to participate effectively in Board (including committee) work is widely acknowledged as a requirement for good corporate governance. For example, Spain's *Instituto de Consejeros-Administradores* includes within its *Code of Good Practice for Directors* a requirement that “an induction program must be in place in order to ensure that each director becomes acquainted with the company in a sufficient and rapid manner....the continuous training of directors falls under the chairman's responsibility who must also ensure that such programs are available for directors and that they are conducted in an adequate manner” (Instituto de Consejeros-Administradores, 2005: 12).²⁸

34. It is difficult to gauge the extent to which skills and experience were taken into account in deciding on committee membership. Interviews for this study suggest that skills and experience were informally taken into account to some extent, but no deliberate effort seems to have been made to articulate the skills and experience most needed by individual committees and what, therefore, was expected from committee members. Without any even

²⁷ The COB is generally considered to be among the most important of the Executive Board committees; members' attendance at meetings of other committees may not be as good.

²⁸ Similar requirements are also considered “best practice” by the Australian Stock Exchange Governance Council.

notional criteria, decisions on the desirability of particular skills were left to the discretion of the Dean of the Board and Management.²⁹

35. At the time of the November 2004 committee reconstitution, efforts were made to articulate clearer limits on the term of membership in individual committees and on the extent to which the terms of individual committee members can be renewed (Section V below). The present study did not assess how these changes might have affected the ability of some of the more specialized committees to retain valuable skills and experience.

36. While periodic seminars were organized for EDs to inform their work, and EDs and their staff have access to training through the program of seminars and courses provided by the IMF Institute, little or no training was systematically targeted to help Board committee members acquire or upgrade specialized skills that they may need to fulfill their particular responsibilities.³⁰ No systematic effort was made, for example, to train members of the Ethics Committee on applying the Board's Code of Conduct or dealing with ethical transgressions, beyond some basic familiarization with the Code, despite the fact that committee members are expected, according to the terms of reference, to give "guidance to [executive directors] on ethical aspects of conduct of their alternates, advisors, and assistants." The situation may be somewhat better with respect to budget issues, where the Office of Budget and Planning has indicated that it has made periodic efforts to explain Fund budget practices to executive directors. However, these efforts fell short of providing systematic and structured training targeted to new members of the COB on the structure and evolution of IMF budget practices. The orientation program for new EDs and their staff focused on introducing participants to general Board culture and processes rather than on developing necessary skills.

V. COMMITTEE CHAIRS

37. As with committee membership, decisions on most committee chairs were made by the Managing Director in consultation with the Dean of the Board. The exceptions were the COB and the Pension Committee (and the now-defunct CAP), whose terms of reference require the Managing Director to serve as chair. Periodically, there has been discussion of electing chairs from among committee members, but this idea has gained little support from

²⁹ EDs' lack of adequate experience or training in some specialized areas is an issue that has been raised in other background papers prepared for IEO's Evaluation of IMF Corporate Governance. For example, Campbell (2008) notes that "the Ethics Committee members, who are responsible for conducting investigations, do not receive training on how to conduct an effective investigation of alleged misconduct." It is conceivable that a perceived lack of a requirement for training or past experience in dealing with ethical issues (including with respect to protocols to protect "whistleblowers"), could explain why this committee has never actually met to discuss any ethical transgression.

³⁰ These include, for example, the Fund's budget processes, IMF accounting and audit systems, institutional financing mechanisms, and implementation of the Executive Board Code of Conduct.

EDs who have been concerned that “lobbying” or “campaigning” for support would undermine collegiality at the Board.³¹

38. In practice, the distribution of committee chairs was broadly balanced between developing and industrial countries, both over time and at any point in time during the evaluation period. It is noteworthy, however, that the APC (the second most active committee in terms of number of meetings) was chaired by an ED from a G-10 or G-8 country every year since November 2000, and that the CoI (which has not met since 1958) was chaired by an ED from a developing country from November 2000 to June 2007. Geographic balance was less in evidence; no ED from either Asia or Africa chaired a committee over the same period.³²

39. Most (but not all) committee chairs had prior experience on their particular committees.³³ This is particularly important given that effectiveness in chairing at least some of the committees (e.g., CAM, Budget, Ethics) will likely require a good knowledge of past practices and precedents. To the extent that the committees can serve as a counterbalance to the power of Management, a chair unfamiliar with past practices and precedents could be at a disadvantage. It is unclear how the principle adopted in 2004—that directors will, in general, serve a two-year term on a committee—will affect the quality of chairmanship.^{34,35} Related to this, frequent turnover of committee chairs can undermine continuity in committee priorities and work, thereby undermining effectiveness. For example, as suggested above (footnote 16), the departure of the Chair of the Ethics Committee was identified during interviews as a major reason for the failure to pursue efforts to hire an external consultant to assist that committee with its work.

³¹ This issue has also arisen at the World Bank, where executive directors came to a similar conclusion regarding the desirability of electing committee chairs.

³² In comparison, at the World Bank, where standing committees of the Executive Board are generally more active than at the Fund, the distribution of committee chairs by level of development has been more balanced, particularly when one takes into account the practice of having a chair and a vice-chair, one from a developing country constituency and the other from an industrial country constituency. However, the chairmanships of the Audit Committee and the Committee on Governance and Executive Directors’ Administrative Matters (COGAM) have tended to be from an industrial country constituency while the Budget Committee chair has tended to be from a developing country constituency. Regional distribution of chairs has also been better, particularly with respect to Asia.

³³ Exceptions include CAM 2002; APC 2004; WTO 2002 and 2004; CoI 2004 and 2007; Ethics 2002 and 2006.

³⁴ “2004 Reconstitution of Executive Board Committees,” Memorandum from the Secretary to Members of the Executive Board (EBD/04/118), November 4, 2004.

³⁵ While it might be prudent to adopt a presumption that the chairman be drawn from among prior committee members, a number of members belong to large constituencies with strict biennial rotation of EDs. As a result, their EDs would effectively be excluded from chairmanships were a requirement for prior membership to be strictly enforced. The potential trade-off between effectiveness and voice would need to be carefully managed.

40. The mandatory chairmanship of some Executive Board committees by Management has been a source of controversy for some time. For example, when the CAP was established in 1969, it was with the understanding that it would be chaired by Fund management. At least two executive directors objected at the time that this would break with the practice up to that point of having executive directors as committee chairs.³⁶ They argued that in other institutions and in parliaments, committees of the assembly were never presided over by the chair of the assembly. However, this view did not carry the day, with the clear majority of EDs arguing that, since management had responsibility for the administration of the Fund, it should chair meetings of the CAP.

41. Similar considerations motivated the 1994 decision that the Managing Director would chair meetings of the COB. That decision may also have reflected a compromise with Management, which had consistently resisted committee-level involvement in the administrative budget but which bowed to pressure from a number of executive directors who had expressed dissatisfaction with the late stage at which directors were being brought into the budgetary process.

VI. PREVIOUS REVIEWS OF EXECUTIVE BOARD COMMITTEES

42. The Executive Board has reviewed its committee structure and operations on several occasions. In November 1970, the composition of Board committees was reviewed at the request of some executive directors who were concerned with an uneven distribution of committee work. This review was also triggered partly by a discussion across the street at the World Bank, around the same time, of the principles that governed the composition of the Bank's Board committees. The IMF discussion looked at the desirability of implementing a time limit for holding a committee seat, the appropriateness of allowing committee memberships to be "inherited" by the successor to a departing ED, and a possible need for a periodic review of the committee system. The outcome was a consensus that the informal system had operated well and that no changes were warranted.

43. Fundamental questions arose in October 1980, when some EDs raised concerns with respect to a perceived lack of rotation in the membership of the CAM, a possible over-reliance on the "seniority" criterion in deciding on membership, and the extent to which the views of non-committee members were being reflected in recommendations.³⁷ The subsequent Board discussion, based on a staff paper on the process for selecting committee members, resulted in a restatement of the status quo for committee operations, although

³⁶ It was argued at that time that the chairmanship of the Pension Committee by IMF Management was appropriate because this was a joint committee with Fund staff, and therefore not technically a committee of the Board.

³⁷ IMF Executive Board Minutes, Meetings 80/16 and 80/17, February 1, 1980.

directors agreed that the CAM should increase in size and that its recommendations should be sent to the Board for discussion rather than approval on a lapse-of-time basis.

44. The role of committees was reviewed in February 1993 in the context of an EDs' retreat. At that time, it was agreed that the Dean of the Board would prepare a memo on a proposal "to examine issues related to a proposal to review the use of committees, as a means of increasing the Board's efficiency...."³⁸ No record of any such memorandum exists, and this initiative does not seem to have resulted in any substantive criticism of, or change in, Board committee structure and operations.

45. Various changes were made in the operation of committees early in the current decade. In December 2000, executive directors agreed to include the APC and the Induction Committee among the list of standing committees. After consultation with the Dean of the Board, the Board agreed in November 2002 to abolish the Induction Committee, transform the Evaluation Group of Executive Directors into a standing committee of the Board, extend the tenure for the chair of the CAM, enlarge the COB from ten to twelve members (and increase the number of members who could be reappointed for a second one-year term from three to four), and adopt more transparent guidance on the balance between rotation and continuity of members.³⁹ At the time of the November 2004 reconstitution, a number of changes were introduced to standardize the structure of committees: in particular, that committee members would, in general, serve for two years, and, that committees would consist of eight members including the chair. The committees on Ethics, Pension, and Budget, would, however, remain exceptions to these new practices.⁴⁰

46. More recently, a Working Group on Executive Board Committees, consisting of eight executive directors, reviewed the "number, size, composition, terms of reference, and modalities of formation of Board Committees." Their report, presented in January 2008⁴¹, concluded that committees are underutilized and could, with certain changes in their operations and structure, contribute more to the Board's efficiency and effectiveness in providing institutional oversight.⁴² They recommended a clearer division of labor between the Executive Board and its standing committees, with committees providing a forum for deliberations at a more technical or detailed level to allow subsequent Board discussions to

³⁸ "Summary of Record of Executive Directors' Retreat Discussions", FO/Dis/93/8, March 15, 1993.

³⁹ "Executive Board Committees," EBD/02/153, November 15, 2002.

⁴⁰ "2004 Reconstitution of Executive Board Committees," EBD/04/118, November 4, 2004.

⁴¹ "Structure and Mandates of Executive Board Committees," EBD/08/10, January 24, 2008.

⁴² This is consistent with the results of IEO's recent survey of current and former members of the Executive Board (see footnote 3 above).

focus on those areas requiring further discussion. To achieve this would require, among other things, an expansion and/or clarification of the mandates of some of the committees.

47. Based on the Working Group's recommendations, the Board agreed, as noted in Section III above, to reorient the mandate of the CWTO to allow that Committee to focus on the Fund's relations with international organizations generally and the World Bank more specifically. It also agreed to extend the mandate of the COB to cover income as well as expenditure issues. The Board agreed not to specify the number of committee members (except for the COB) and that there would be a presumption that departing directors would be replaced by their successors. The Board also agreed to have language drafted to amend Rule C-5(a) of the IMF Rules and Regulations,⁴³ to introduce an expectation that "normally" only committee members would speak at committee meetings and that interventions by non-members would be restricted to "issues or perspectives not otherwise put before the Committee by its members." To help take adequate account of the concerns of non-members, committee chairs were expected to consult non-members proactively before meetings. Directors also endorsed the recommendation that the Dean of the Board should set up an informal working group every two to three years to review the overall committee structure, membership selection, and mandates. The Working Group could not reach agreement on whether to recommend establishment of a Committee on Human Resource Policies or an Audit and Risk Management Committee.

VII. CONSTRAINTS TO MORE EFFECTIVE BOARD COMMITTEES

48. As noted at the outset of this paper, only a small portion of the Board's work is carried out by Board standing committees. This is the case both in relation to the amount of work done by the full Board and in comparison with Board committees at other inter-governmental organizations (e.g., the World Bank). One of the consequences has been to weaken a potentially significant counterbalance to the power of IMF Management in conducting the Fund's business. This dimension of the dynamics between the Board and Management is well illustrated with respect to the evolution of the Committee on the Budget (Annex 2) and is also reflected in the history of the CAP and the motivation for the creation of the Agenda and Procedures Committee (Section IIIB).

49. Past reviews of the committee structure, internal deliberations on the functioning of individual committees, and interviews with current and former members of the IMF Executive Board and the IMF staff have identified a number of factors that may have undermined the effectiveness of, and confidence in, Board committees in supporting the Executive Board's oversight of the Fund and its management:

⁴³ This rule stipulates that "Executive Directors may participate in all meetings of the Executive Board and of its committees."

- (a) *Lack of a regular forum for executive directors to discuss many important issues (e.g., budget, human resource policy) independently of management.* Within both the Fund and the World Bank, it has been argued that executive directors benefit from more frequent and regular opportunities to discuss policy issues independently of management. Committees of the Executive Board can provide these opportunities, but not if the committees are chaired by management. As suggested by the experience of the COB and the CAP, Management and staff are highly resistant to giving executive directors greater control of what they see as essential managerial functions. This conflicts with good corporate practice as articulated in a number of countries, which calls for a separation of Management and boards of directors.⁴⁴
- (b) *A tendency for discussions in committee to be duplicated when issues are considered by the Executive Board.* To some extent, this reflects a lack of clarity about the role and comparative advantage of committees relative to the Executive Board. The fact that some committees are chaired by management, which also chairs the full Board, may blur somewhat the distinction between committees and Board deliberations. Unlike at the World Bank, IMF Board committees do not usually result in the preparation of a report to the Board differentiating issues on which agreement exists from issues that require further Board discussion.
- (c) *A lack of trust among non-committee members that their concerns will be taken into account in committee deliberations.* This is reflected in a reluctance of many executive directors to delegate oversight (even without decision-making authority) to a sub-group of the board. As a result, virtually all constituencies are represented at all committee meetings, since committee meetings (except for the Ethics Committee) are open to all executive directors.
- (d) *Lack of accountability in the selection of committee members and chairs.* While interviews for this evaluation revealed general satisfaction with the conduct of the informal process for selecting members and chairs, this appeared to be related to the

⁴⁴ Examples include: (1) *OECD Principles of Corporate Governance* (OECD, 2004: 63-64): "...In a number of countries...the objectivity of the Board and its independence from management may be strengthened by the separation of the role of chief executive officer and chairman...Separation of the two posts may be regarded as good practice, as it can help achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management." (2) "Principles of Good Corporate Governance: Code of Good Practice for Boards and Directors," Instituto de Consejeros-Administradores (2005): "...the positions of Chairman and Managing Director/Chief Executive Officer should be held by different persons." (3) "Principles of Good Corporate Governance and Best Practice Recommendations," Australian Stock Exchange Corporate Governance Council, 2003: 7: "The roles of chairperson and chief executive officer should not be exercised by the same individual." (4) "Report of the Committee and Code of Corporate Governance," Corporate Governance Committee, Ministry of Finance, Singapore (2001): "Such a separation (of the chairman and CEO) is important because it enhances the independence of the board in monitoring management."

significant confidence that directors had in the judgment of the Dean of the Board between 1997 and 2007. However, given directors' reluctance to elect the Dean⁴⁵, having a Dean who commands sufficient respect and authority and exercises appropriate judgment cannot always be taken for granted.

- (e) *No systematic attempt to explicitly specify, and promote the acquisition of, the experience and skills considered desirable for membership in particular committees.* Contrary to corporate good practice, there is no system in place to promote, on an ongoing basis, skills development and targeted training for members of individual committees.⁴⁶
- (f) *Insufficient continuity on some committees.* Members on the COB serve for one-year terms (compared with two-year terms for all other committees), and no more than four of the COB's twelve members can be reappointed for a second term. This means that most of the COB members serve on the committee for only a single budget cycle.⁴⁷ In the Evaluation Committee, the average tenure between 2000 and 2007 was 1.5 years, and no more than two of the seven members can be reappointed for a second term. For these, and a number of other committees, only *maximum* numbers of reappointments have been set, suggesting that the concern with the adequacy of rotation outweighs the desire for continuity. The average tenure of members for all the most active committees does not exceed two years. No guidance is in place regarding the appropriate degree of continuity or rotation for committee chairs, despite problems such as those described above in Section V.
- (g) *Uneven distribution of committee responsibilities:* As noted in Section IVB, there are several instances of individual chairs maintaining membership on particular committees for prolonged periods. This usually occurs within the existing guidelines, which provide for limits on tenure for *individuals* rather than *constituencies*. However, the motivation for facilitating the rotation of committee membership in a multilateral organization like the IMF derives from considerations of voice (i.e., to promote broader participation among different members). This would suggest that limits on terms and term renewals should apply to constituencies rather than to

⁴⁵ See, for example, "Structure and Mandates of Executive Board Committees," EBD/08/10, January 24, 2008, page 2.

⁴⁶ The Secretary's Department conducts a series of induction seminars for new EDs, alternates, and their professional staff, but with content of a more general nature, not targeted to the work of specific committees.

⁴⁷ The average tenure of members on the COB from 2000 to 2004 was 1.7 years, falling to 1.5 years since 2004. This is higher than the 1.3 years that would be expected if all members began membership at the time of reconstitution. However, in practice, many of them join the COB mid-term and this does not appear to count toward their 12-month term limit.

individuals.⁴⁸ Moreover, developing country constituencies have been disproportionately represented on the less active committees, and at least since 2000, no committee chair has come from an African or Asian constituency. Staff have suggested that this is a response to the heavier work burden that some of these chairs may face in representing constituencies with large numbers of countries, many of which have program-intensive relationships with the Fund. Nevertheless, any considerations along these lines need to be weighed against the fact that chairing a committee provides the individual executive director with an opportunity to gain experience and develop his/her knowledge of the institution, with a net effect of increasing his ability to have an impact on the institution.

- (h) *No regular and systematic assessment of the adequacy of the committee structure.* Throughout the Fund's history, changes have been made to the committee structure and mandate largely on an *ad hoc* basis. At times, these have involved the creation of new committees; at times, the abolition of others. Given changing needs and priorities for the institution and within the membership, the Board's recent decision, mentioned above, to review the committee structure, practices, and mandates every two to three years promises an improvement over past practice.
- (i) *Gaps in the current Executive Board committee structure.* In terms of the adequacy of the current structure of Fund Board committees, two main issues have arisen in the past few years. There has been considerable debate on the need to establish a Board Audit Committee to bring the Fund into line with broadly accepted corporate good practice and the practices in most other international financial institutions.⁴⁹ More recently, and in light of the abolition of the CAP, consideration has been given to establishing a Board committee to provide strategic direction on human resource policy. Since the Fund is essentially a knowledge-based institution, its effectiveness cannot be divorced from human resource policy. Moreover, ongoing efforts to refocus the Fund's work and mandate⁵⁰ are bound to have important implications for the required mix of skills and experience of Fund staff and the balance between university recruits and mid-career hires. These are not simply operational or administrative issues but involve clear institution-wide policy decisions that warrant the close involvement of executive directors. The establishment of a Human Resource Policy committee would also make the Fund's committee structure comparable to that

⁴⁸ Conversely, continuity is ensured when the *individual* possessing particular knowledge and experience is retained on a committee.

⁴⁹ See Clark and Chelsky (2008) for a discussion of these issues.

⁵⁰ See, for example, "Refocusing and Modernizing the Fund: A Statement by the Managing Director," Committee on the Budget, January 10, 2008.

in a number of other major international financial institutions.⁵¹ At present, there is inadequate support among executive directors to establish either of these two Board committees, but discussions are ongoing.⁵²

50. Given these features, it is perhaps not surprising that executive directors express broad dissatisfaction with the operations of Board committees. Yet it has proven difficult to derive a sufficient base of support from among directors for significant reform to the committee system and its operations. Survey data and interviews conducted for this evaluation suggest that the lack of impetus for a fundamental reform may be due to a combination of factors, including:

- shortcomings in Board members' expertise and experience in oversight of a large institution⁵³;
- fear of retribution from Management and staff for challenging the status quo⁵⁴; and/or
- the relatively short time that many directors spend at the Fund (and an even shorter time as members of individual committees).

VIII. MAIN FINDINGS AND RECOMMENDATIONS

51. How can the use of IMF Board committees be improved so as to contribute more to Board efficiency and effectiveness and thereby improve Fund governance more generally? Committee meetings are less formal than meetings of the full Board, thereby facilitating

⁵¹ The World Bank has a Personnel Committee of the Executive Board which is responsible "for keeping under continuing review and, where appropriate, advising the executive directors on, staff compensation and other significant personnel policy issues including strategic staffing, diversity, and conflict resolution." Other international organizations with similar committees include the InterAmerican Development Bank (Organization, Human Resources, and Board Matters Committee); the African Development Bank (Committee on Administrative and Human Resources Policy Issues); and the Bank for International Settlements (Administrative Committee, which reviews key areas of administration, such as budget and expenditures, human resources policies, and information technology).

⁵² See "Structure and Mandates of Executive Board Committees," EBD/08/10, January 24, 2008.

⁵³ In the above-cited IEO survey of current and past members of the Executive Board, 30 percent of respondents considered the skills and experience of the Board as a whole in managing a large organization to be "weak." Thirty-seven percent described the Board's skills experience with financial management oversight to be "weak." Senior Fund staff were even more critical, with 62 and 51 percent considering the skills and experience of the Board as a whole to be "weak" in managing a large organization and with financial management oversight, respectively.

⁵⁴ In the survey of current and former members of the Board, only 17 percent of respondents from low-income countries and 53 percent of respondents from middle-income countries indicated that they felt that they could "criticize the views of IMF staff or Management without fear of repercussions." This concern would most likely extend to any effort to challenge the right of Management to maintain its monopoly on the chairs of the COB and (previously) the CAP.

debate and interaction among EDs. They occur earlier in the decision-making process than Board meetings, and often before country authorities have formed firm views on issues and sent instructions to their representatives on the Board. Since EDs generally do not circulate statements in advance of committee meetings, they are less likely to be constrained by views they have expressed in writing before the meeting and may therefore be more likely to take their colleagues' views into account in forming their own opinions. Interactive and less constrained discussions can provide a better environment for consensus building and also have the potential to improve the advice that executive directors give their authorities. Finally, committee review of important issues provides an opportunity to save the time at the Board, focusing the Board's discussion on those issues for which consensus remains to be reached.⁵⁵

52. How might committees more effectively assist the Board in carrying out its responsibilities?

A. Committee Chairmanship and Opportunities for Independent Discussion

53. As noted, the Managing Director holds the chair of the Committee on the Budget. He is also the chair of the Executive Board, with the net result that executive directors lack a forum to discuss budget issues independent of management. In the private sector, it is often argued that the functions of CEO and Chairman of the Board should be separate so that boards can discuss important issues independent of management. Some observers have suggested that this principle should also apply in the IMF. An assessment of the desirability of separating the functions of CEO and Executive Board chair is beyond the scope of this paper, but **requiring all committees of the IMF Board to be chaired by an ED** could at least ensure that directors have sufficient and regular opportunities for **discussion independent of management**, as well as full control over the agenda and timing of meetings. Incidentally, at the World Bank all committees of the Executive Board are chaired by executive directors.

B. Skills and Experience

54. The effectiveness of committees would be enhanced by clearly articulating the committee-specific skills and experience that are considered desirable for committee members. Consideration should be given to establishing more transparent guidelines for the selection of committee chairs to ensure that the chairs are adequately familiar with the work of their particular committee.

⁵⁵ The use of committees to further Board effectiveness and efficiency is identified as a characteristic of good corporate governance in Dalberg Global Development Advisors (2008).

C. Training and Induction

55. Good practice in corporate governance encourages ongoing training for directors.⁵⁶ Because many of the EDs who serve on particular Board standing committees do so for a relatively short time, and because not all of them have had extensive prior experience working on IMF issues, adequate training is particularly important. Much could therefore be gained from a more concerted and systematic effort to familiarize EDs with Fund- and committee-specific issues and practices. **Consideration should be given to a more regular and systematic effort (perhaps involving committee chairs) to identify targeted training needs for new members of particular committees.**

D. Continuity on Committees

56. **Continuity on committees should be strengthened** (particularly for the COB, which is the only committee with a single-year term for members). Individual term limits could be extended beyond two years (and beyond one year for the COB), perhaps to three years, with one-third of members rotating each year. This would strengthen the ability of members to provide more effective oversight of, and direction to, Fund Management.

E. Rotation and Voice

57. With respect to the rotation of committee members and its contribution to enhancing voice within the IMF, **ceilings on term limits should refer to constituencies rather than individual executive directors.** Applying rotation criteria to constituencies rather than individuals would help to ensure that a broader range of constituencies are brought into the work of committees.

F. Regular Evaluation and Reviews of Committee Structure and Mandates

58. Consistent with corporate best practice, **all Board committees would benefit from the adoption of a regular (preferably annual) evaluation** to obtain feedback from members and other stakeholders on how committee operations and effectiveness could be improved.

⁵⁶ For example, according to the OECD Principles of Corporate Governance (OECD, 2004: 66), “In order to improve board practices and the performance of its members, an increasing number of jurisdictions are now encouraging companies to engage in board training...This might include that board members acquire appropriate skills upon appointment...through in-house training and external courses.” Also, “it is appropriate for corporations to provide additional educational opportunities to directors on an ongoing basis to enable them to better perform their duties and to recognize and deal appropriately with issues that arise” (Business Round Table, 2002). Dalberg (2008: 12) provides the example of British Petroleum (BP) to highlight the importance to good corporate governance of training for directors “on an ongoing basis” and “customized depending on which committees directors are involved in.”

59. The Board recently endorsed a recommendation to have the Dean of the Board constitute an informal working group of executive directors every two to three years to review the overall committee structure, membership selection, and mandates. **This initiative could be strengthened by *requiring such a review at least every three years.***

G. Committee Coverage

60. The Board should create three new committees: 1) an Audit Committee; 2) a Risk Management Committee; and 3) a Human Resource Policy Committee.

IX. CONCLUDING REMARKS

61. Interviews, survey data, previous reviews of the Fund's Executive Board committee structure, principles of good corporate governance, and experience in other multilateral institutions (particularly the World Bank) all suggest that the standing committees of the Executive Board could make a much more effective contribution to the internal governance of the IMF. Some of the changes suggested above, such as targeted training for committee members, could be integrated easily into current structure and practice. Others would require changes in work practices and a strengthening of directors' engagement in carrying out their oversight responsibilities. Some of these changes are similar to those that the World Bank introduced when it reformed its committee structure. There, the initial resistance of some EDs to changes in well-entrenched practices has given way to an acceptance that committees can make an important contribution to shareholder oversight and can improve the efficiency of Executive Board meetings and the quality of decision making. Similar potential exists within the IMF and should be pursued.

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ANNEX 1. CHARACTERISTICS OF INDIVIDUAL EXECUTIVE BOARD STANDING COMMITTEES, PAST AND PRESENT

	Current Membership	Current Term	Chair	General Points
Committee on the Budget (COB)	12 executive directors. MD or DMD	One-year term, up to four members can be reappointed for a second term to provide continuity	Managing Director (or DMD)	Established February 1994 In November 2002, number of executive directors was increased to 12 (from 10)
Committee on Executive Board Administrative Matters (CAM)	8 executive directors	Two years	Executive director for 2 year term	Established in 1951. Prior to November 2002, chair rotated every 6 months
Agenda and Procedures Committee (APC)	8 executive directors	Two years	Executive director for 2 year term, rotating	Established in 1998 but not made a formal standing committee until 2000; with 6 executive directors prior to 2004
Committee on Interpretation (Col)	8 executive directors	Two years	Executive director for 2 year term	Established in 1947; Committee has not met since 1958.
Pension Committee	MD, four executive directors, one staff member appointed by MD, one staff member elected biennially by participants	Executive directors elected every two years	Managing Director	Established in 1948; Terms and composition of membership set out in the Staff Retirement Plan.
Ethics Committee	5 executive directors, 5 executive directors as alternate members, General Council of the Fund (secretary)	Two years	Executive director for 2 year term	Beginning in 2006, the Dean requested that the most senior executive directors should be members.
Evaluation Committee	7 executive directors, representing a balance of interests	Two years; Two members may be re-appointed for a 2nd term	Executive director for 2 year term	Transformed from and "Evaluation Group" into a formal standing committee of Board in November 2002.
Committee on the Annual Report (CAR)	3 executive directors and 3 IMF staff (EXR, PDR, SEC)		Executive director for 2 year term	Created November 2004, First meeting – February 15, 2005
Committee on Administrative Polices (CAP)	6 executive directors and the MD or DMD	Two years, on a staggered basis.	Managing Director or DMD	Established in 1969; Had not met since December 2001; Abolished in December 2006 based on recommendation arising from an informal executive directors' lunch in November 2006 on streamlining Executive Board Standing Committees
Induction Committee	5 executive directors	Two years	Executive director for 2 year term, rotating	Established as a standing committee in December 2000 but abolished in November 2002.
Committee on Liaison with the WTO (CLWTO)	8 executive directors	Two years	Executive director for 2 year term	Established in July 1948; not reconstituted in November 2006, pending expansion of its mandate; in January 2008, it was renamed the Committee on Liaison with the World Bank and other International Organizations with revised terms of reference.

ANNEX 2. ORIGINS AND EVOLUTION OF THE COMMITTEE ON THE BUDGET

The decision in 1994 to create a Board Committee on the Budget (COB) provides insight into the factors motivating the establishment of a major standing committee of the Executive Board and the backdrop of tensions within the Fund on internal governance. Before 1994, budget discussions were held exclusively in the Executive Board, under the chairmanship of the Managing Director. Informal meetings took place periodically outside the Board to discuss budgetary issues, but no records were kept. As early as 1969, and again in 1975 and 1983, several EDs sought to use the Committee on Administrative Policies (CAP) as a forum to discuss the administrative budget.⁵⁷ In the 1983 discussion, one director cited his experience at the World Bank, which suggested that “...discussion of the budget in a committee permitted a much shorter and less technical discussion in the Executive Board.”

However, these efforts were consistently rebuffed by management, with Fund staff arguing that budgetary issues were outside the terms of reference of the CAP, whose mandate was “to consider and make recommendations to the Executive Board on those matters of administrative policy requiring action by the Board...” Moreover, it was pointed out that consideration of budgetary issues was explicitly excluded from the scope of the CAP when that Committee was created in 1969, given that, according to management at that time, “(i) these matters are of such overriding importance that all executive directors should be on an equal footing when they come up for discussion in the Executive Board, and (ii) it was unlikely that any time would be saved by additional consideration.”⁵⁸ This view had not altered significantly by 1983, with management’s assertion that “the present process of formulating the administrative budget provides executive directors with appropriate opportunities to review questions of organization and operation, and to set overall budget guidelines.”

Nevertheless, some directors periodically expressed concern about the limited role of EDs in providing input into budget formulation, particularly when pressure for budgetary consolidation began to mount. In 1991, for example, pressure to contain expenditures resulted in the preparation of a Board paper on “The Fund’s Administrative Budget Process,” in which management acknowledged that “an early Executive Board involvement in setting work activity priorities and in deciding expenditure allocations will be essential.”⁵⁹ However, despite introducing a number of improvements to the budget process (e.g., by expanding the

⁵⁷ For example, see “Mr. Palamenghi-Crispi’s Statement on Proposal to Create a Committee on Administrative Policies,” Executive Board Meeting 69/94, October 13, 1969, and Minutes of the Committee on Administrative Matters, Meeting 83/1, May 26, 1983.

⁵⁸ Terms of Reference of the Committee on Administrative Policies, prepared by the Administration Department, August 22, 1983, EB/CAP/83/7, p. 1.

⁵⁹ July 29, 1991, EBAP/91/196.

data base on administrative expenditures), no change was envisaged at that time for the forum (i.e., the Executive Board) in which executive directors would discuss these issues.

It was only in February 1994 that support for providing EDs with the opportunity for a “more systematic and intensive review of the budget at an earlier stage in the budget process than had been permitted under previous procedures”⁶⁰ was sufficient to permit the establishment of the Committee on the Budget (COB).

That it took so long for sufficient support to emerge among EDs to create a budget committee (and that even then, a number of EDs supported its chairmanship by Management) is noteworthy. Two possible explanations were suggested by some of the persons interviewed for this study. One, as noted in Section VIII above, is that representatives of low- and middle-income countries have some hesitation in challenging management. Another is that those members commanding relatively little voting power (largely developing countries) may view Management as a “neutral” party in discussions of important issues (such as the Fund’s budget) and therefore as a counterbalance to those shareholders that command a majority of the voting power. If so, they may be reluctant to empower the Executive Board to too great an extent. The legitimacy of this latter explanation is drawn into question, however, by the fact that the COB does not have decision making power and that any recommendations would need to be discussed and approved in the full Board, which is chaired by Management.

In any event, agreement was reached in 1994 to establish a Committee on the Budget with the following terms of reference:

“...the Committee on the Budget will consider from a broad perspective the Managing Director’s budget proposals, other documentation, and background material circulated by the Managing Director regarding the budget of the Fund. The Committee will make its views on the budget proposals known to the Executive Board and will meet as needed to consider budget implementation. The Executive Board will continue to make decisions dealing with the budget and will keep the work of the Committee under review in order to ensure that Committee procedures remain as efficient as possible. The activities of the Committee will not preclude any Executive Director from calling on the staff for information or clarification on any aspect of the budget.”

While the lack of decision-making power of the COB was never in doubt (in light of Rule C-11 of the IMF Rules and Regulations), the Committee’s role vis-à-vis the Executive Board was left vague. The COB terms of reference referred to the efficiency of the Committee’s own procedures rather than to the Committee’s role in making Board budget

⁶⁰ Minutes of the Committee on the Budget, Meeting 94/1, February 9, 1994.

deliberations more efficient. It was therefore not surprising that EDs soon began to raise questions and concerns with respect to what was and was not appropriate to discuss during the COB's meetings. EDs even differed as to whether or not the COB would restrict itself to discussions of the administrative and capital budgets or would also consider the broader budgetary framework, including issues related to Fund income (e.g., the rate of charge, anticipated lending, the expected SDR rate for the medium term) and the broader issue of burden sharing.

At the outset, a number of factors clouded the comparative advantage of the COB in adding value to the work of the full Board and providing meaningful direction to management. These included the decision that the COB would be chaired by Management, the holding of the first meetings in the Executive Boardroom rather than the less formal Committee room,⁶¹ the relatively late stage at which the COB was presented with the subsequent year's administrative and capital budget proposal, and the fact that decisions on Fund salaries were taken outside of, and prior to, the meeting of the COB. One director went so far as to argue that the COB was "endorsing—ex post—decisions that had already been largely predetermined" rather than discussing "ex ante—priorities and options."

The specific function of the COB was made even more ambiguous by its chair, who indicated, at the outset, that he "did not believe that negotiating a consensus within the Committee should be overemphasized" and that "he did not foresee the Committee taking a great deal of time agreeing on a paper for submission to the Board."

Throughout the COB's first year, some EDs continued to express concern that the role envisaged for the COB by management was little different from that for the full Board, with important issues (such as IMF staffing) either excluded from discussions or brought to the COB too close to scheduled Board discussions to have anything but a marginal impact. Despite the objections of a number of executive directors who expected that the COB discussion would influence the final budget proposals presented to the Board, the Acting Chairman of the COB noted that:

"...The suggestion that the Committee should have a role in finalizing documentation before it was circulated to the Board was not, however, consistent with the terms of reference of the Committee...It had not been envisioned that the Committee itself, as distinct from the Board, would play a role in the formulation of management's thinking in the context of the budget process."⁶²

⁶¹ See, for example, the statement of Mr. Tetangco, Minutes of the Committee on the Budget, Meeting 94/3, April 7, 1994, p. 8.

⁶² Committee on the Budget, Meeting Minutes, Meeting 94/4, May 31, 1994, p. 17.

Such comments made it clear that Management viewed the COB largely as a forum for EDs to ask questions and seek clarification on the MD's budget proposal at a level of detail that was not seen as appropriate for full Board meetings. In this regard, COB meetings functioned more as technical briefings, with no expectation that deliberations would form part of an iterative process leading to a final proposal to be presented to the Board, as many committee members and other executive directors had sought. However, in an attempt to placate the more vocal EDs, the Chairman indicated at the October 2004 COB meeting that:

Depending on the available time...ways should be found to improve coordination between the Board and the Committee and between the Committee and management, so as to take into account proposals by the Committee in designing specific proposals for formal Board consideration.⁶³

Nevertheless, a number of EDs continued to press the issue, calling for presentation of budget information to the COB well in advance of the Board meeting. It was suggested that this should be in the form of an oral presentation by staff prior to the formal issuance of a budget proposal to the Board. In any event, management did respond positively to EDs' request to be presented with a range of scenarios underpinned by different budgetary assumptions. However, the Acting Chairman considered that the presentation of alternative scenarios to the Board would represent a duplication of effort and the COB should come to agreement on a single scenario. However, some directors—including some of the strongest advocates of greater involvement of the COB in budget discussion—did not agree and saw merit in also having this discussion at the level of the Board.

By the end of the COB's first year, the Chair had adopted a practice of summarizing the extent of consensus on key budget issues at the end of each meeting in the form of a short Chairman's statement. This summary, whose language followed conventions similar to those in Executive Board Summings Up, made no distinction between the views of Committee and non-Committee members.⁶⁴ By the second year, the focus of discussions shifted away from whether or not the COB had a role to play in setting budget parameters and toward discussions of the budget process and practices, including the appropriateness of dollar budgeting, and how budget discussions could be better aligned with institutional priorities.

In January 2000, the COB met to discuss management's budget proposal. A significant number of EDs were clearly uncomfortable with the large staff increase being sought by management and it was therefore suggested that the budget proposal be revised. Despite this, the Acting Chairman indicated that "he would not attempt to make any concluding remarks, and only take account of what had been said, and there would be an Executive Board

⁶³ Committee on the Budget, Meeting Minutes, Meeting 94/5, October 27, 1994, p.10.

⁶⁴ Moreover, a review of the minutes from COB meetings during the first year revealed no significant difference between the level of engagement of Committee versus non-Committee members.

discussion [the following week].” That meeting began with the Chairman acknowledging that the views recently expressed by directors had led him to prepare lower medium-term budget options for discussions at that meeting. In retrospect, this was among the earliest examples that the COB, six years after its creation, was starting to play the role that executive directors had envisaged, in vetting and debating management budget proposals to increase the likelihood that sufficient support existed for the proposal brought before the full Board.

ANNEX 3. EXECUTIVE BOARD COMMITTEES AT THE WORLD BANK

The World Bank Executive Board makes extensive use of standing committees to strengthen the efficiency and effectiveness of the Board in discharging its responsibilities. According to a Board-endorsed review of the function, structure, and terms of reference of Executive Board committees, “to meet this overall objective, committees need to carry out work programs that (i) facilitate the process of consensus-building and decision-making in the Board and (ii) assist the Board in discharging its oversight responsibilities” (World Bank, 1993–94).

As at the IMF, committees are not empowered to make decisions for the entire Board. However, all World Bank committees are under the full control of executive directors and have a well developed system of reporting to the Executive Board on areas of consensus, and identifying issues that remain to be resolved. This enables Board discussions to focus on those areas requiring additional attention. Specifically, at the close of a committee discussion, the committee chair reads out a short summary of the key conclusions reached. Based on the transcript of the meeting and the chair’s summary, staff prepare a more extensive and detailed summary (a “green sheet” report) which summarizes the committee’s views on major issues that emerged during the discussion. This is then circulated to committee members and staff for comment. Once finalized, it is circulated to all executive directors. Green sheets have no formal status within the Bank and are not published. However, they provide a useful benchmark against which staff can consider changes to policy documents that will be formally dealt with at the Executive Board.

The Bank’s Board has five main standing committees: the Audit Committee, Budget Committee, Committee on Development Effectiveness (CODE), Personnel Committee, and the Committee on Governance and Executive Directors’ Administrative Matters. Other Executive Board committees include the Executive Directors’ Steering Committee (an informal committee that provides a forum for discussion of the executive directors’ work program), the Informal Subcommittee of CODE, the Pension Benefits Administration Committee, the Pension Finance Committee, and the Ethics Committee.

Membership in committees follows principles similar to those adopted at the Fund. Formally, the chair of the Bank Board—the President—nominates, and executive directors appoint, committee members. The Dean and the Board Secretariat make considerable “behind-the-scenes” efforts to arrive at an appropriate balance. The President rarely gets involved. A key difference with IMF practice is that each committee selects its own chair and vice chair from among those members who are expected to complete a two-year term. If the chair is from a borrowing member country, the vice chair is from a non-borrowing member country and vice versa. All committees are chaired by executive directors

There have been a number of major reviews of the World Bank's Executive Board committee structure. Among these was the so-called Touré Report⁶⁵ which identified the need for executive directors to meet among themselves—without management present—“to develop their collective understanding of the Bank Group's situation and to discuss what issues they wanted to address with the Management.” It also sought “clearer distinctions between Board/committee procedures for policy deliberations, oversight, and contributions to outreach and partnership, including avoidance of duplication between Board and committee/subcommittee meetings.” The Touré Report called for a review of the committee's conclusions in twelve months to assess the need for further changes.

⁶⁵ World Bank, “Report of the Ad Hoc Committee on Board Polices and Procedures: Conclusions and Recommendations,” October 5, 2000. Recommendations contained in the report were part of a broader effort to “sharpen the focus of the Board's work program by redirecting the Board's attention to matters of strategic planning and policy, as well as audit and control.”