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The Historical Development of IMF Governance

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Abstract

This paper traces how the IMF and its main constituent decision-making organs (the Board of Governors, the Executive Board, and Management) have responded to new challenges in the global economy by adapting the IMF's role, including, when necessary the governance structure itself. It also highlights some current issues in Fund governance.

The views expressed in this Background Paper are those of the author 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.

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Abbreviations

ESAF	Enhanced Structural Adjustment Facility
FSF	Financial Stability Forum
C-20	Committee of Twenty—the Ad Hoc Committee on the Reform of the International Monetary System and Related Matters
G-5	France, Germany, Japan, United Kingdom, United States
G-7	Canada, France, Germany, Italy, Japan, United Kingdom, United States
G-10	Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, Switzerland, United Kingdom, United States
G-20	A steering committee created by the G-7 in 1999, with membership of major industrial countries and systemically-important developing countries
G-24	24 developing countries that coordinate their positions on international economic issues
G-77	77 developing countries that coordinate their positions on international economic issues
GAB	General Arrangements to Borrow
GRA	General Resources Account
HIPC	Highly Indebted Poor Countries Initiative
IC	Interim Committee
IMFC	International Monetary and Financial Committee
JCR	Joint Committee on the Remuneration of Executive Directors and Their Alternates
OECD	Organization for Economic Cooperation and Development
PDR	Policy Development and Review Department
PRGF	Poverty Reduction and Growth Facility
SAF	Structural Adjustment Facility
SDA	Special Disbursement Account
SDR	Special drawing right

I. Introduction: Scope of the Study

1. This paper traces how the IMF and its main constituent decision-making organs (the Board of Governors, the Executive Board, and management) have responded to new challenges in the global economy. The emphasis is on changes in governance, meaning in this context particularly the decision-making process, rather than on changes in the Fund's substantive work, which is beyond the scope of this study (see Boughton (2000), Horsefield (1969), de Vries (1976 and 1985), James (1996), Solomon (1982 and 1999), and Van Houtven 2002). The main focus is on the Executive Board, which takes most of the important decisions in the Fund, and on the Board's relations with other organs—especially the International Monetary and Financial Committee (IMFC) and the Managing Director—and on changes in last ten years or so, plus earlier changes that still have major significance for how Fund governance works today. The paper is intended as a complement to a separate paper on "The Formal Governance Structure of the International Monetary Fund" (Mountford, 2008), which discusses the powers and responsibilities of the main decision-making organs and relates them to the Articles of Agreement, the Fund's "constitution".

2. After a discussion of the Fund's Articles of Agreement in Section II, Section III chronicles the main changes in the Fund's governance structure. Section IV raises some evaluative issues about the current governance structure.

II. The Articles of Agreement

3. Any consideration of the Fund's governance structure must start from the Articles of Agreement, which are the Fund's "constitution" or charter. The Articles establish the broad purposes of the Fund, provide for the establishment of the main organs and define their relative roles in a decision-making system, delineate other significant governance features (notably weighted voting and special majorities), embody some important underlying principles of governance (such as uniformity of treatment of members), and establish the main financial features of the institution.

4. A distinguishing feature of the IMF's system of governance is that the Articles embody a combination of rules and discretion. Broadly, one can say that the original Articles put a clear emphasis on firm rules, especially as regards exchange rates and the financial rights and obligations of members, and provided less room for discretion. The balance then shifted markedly in the late 1970s, with the Second Amendment of the Articles, towards a system in which there are fewer rules and greater reliance on principles, therefore, giving substantially greater scope for—and need for—the exercise of discretion, in particular by the Executive Board. This is a system that, with only minor further adaptations, is still in effect.

5. It was clear from the outset that the international monetary system, and the role of the Fund within that system, was not expected to be static or rigid. The governance provisions set out in the Articles of Agreement have therefore been adapted over time, by formal amendment, by interpretation, and by numerous decisions by the corporate organs, to give

more precise meaning to principles so that they may be translated into practice. The system of governance has gradually and constantly been adapted to the requirements of a changing global environment.

6. Each of the main organs of the Fund has taken further decisions that have spelled out aspects of the Fund governance that have needed to be clarified or made more specific. The governors have adopted by-laws and resolutions; the Executive Board has adopted rules and regulations, and a wide range of general decisions that provide guidelines; and the management has issued general administrative orders on matters concerning the administration of the institution and staff governance. These decisions have modified the corporate governance structure of the Fund in fundamental ways, while staying consistent with the principles of the Articles.

7. The Articles have been formally amended three times; first in 1969, to provide for the creation and allocation of Special Drawing Rights (SDRs); second in 1978, to give effect to the partial reform of the international monetary system; and third in 1999, to strengthen the Fund's power to impose sanctions—in particular by suspending their voting rights—against members that persistently fail to fulfill their obligations under the Articles. A proposed Fourth Amendment, to provide for a new allocation of SDRs, was approved by the Executive Board and the Board of Governors in 1997 by the necessary 50 percent majorities, but has not yet been ratified by the necessary majority of the members (three-fifths of the members and 85 percent of the total voting power).

III. The Main Changes in the Fund's Governance Structure

8. As indicated above, the Articles of Agreement created an institution with clearly stated purposes (Article I) but with a system of governance that has provided ample scope to adapt the Fund's activities, policies, and practices in response to the changing needs of the global economy.

A. Fund Governance, 1946–70

9. The membership of the IMF expanded dramatically in the early years, from an initial 29 countries in 1945 to 117 by 1970. One consequence was a concomitant expansion in the size of the Board of Governors—there being one governor per country—and of the Executive Board, which initially numbered 12 directors but by 1964 had reached 20 (Table III.1). The workload of the Executive Board expanded steadily in this period, due both to the growth of membership and to the elaboration and development of the Fund's substantive role.

Table III.1. Changes in the Number of Executive Directors in the Fund

Regular Election	Appointed	Elected	Total
1946	5	7	12
1947 (interim election)	5	8	13
1948 (interim election)	5	9	14
1952	5	11	16
1956	5	12	17
1958	6[1]	12	18
1960	5	13	18
1963 (interim election)	5	14	19
1964	5	15	20
1968	6[2]	14	20
1970	6[3]	14	20
1978	6[4]	15	21
1980	6[5]	16	22
1992	5	19	24

[1] Canada appointed an executive director under Article XII, Section 3(c).
[2] Italy appointed an Executive Director under Article XII, Section 3(c).
[3] Japan appointed an executive director upon becoming one of the five largest quota-holders with the effectiveness of its quota under the Fifth General Review.
[4] Saudi Arabia appointed an executive director under Article XII, Section 3(c).
[5] Saudi Arabia appointed an executive director under Article XII, Section 3(c).
Source: Secretary's Department, IMF.

10. During this period the main decision-making organs developed and adopted ways of fulfilling the governance roles that had been set out for them in the Articles. The Fund bodies developed practices, which are still basically in effect, to give effect to the sharing of decision-making authority between the Managing Director and the Executive Board. For both economic consultation cases and operations involving use of IMF resources, these followed the same general pattern:

- Staff contacts and discussions at the technical level, subject to management instructions, leading to preparation of papers; then
- Submission of these papers with proposals by management to the Executive Board; and then
- Discussion and eventual approval by the Executive Board.

11. Within the framework of these practices, the executive directors, representing the entire membership, operated as the main political counterweight to the technical work of the staff, ensuring that proposals would be approved by the broad membership.

12. In addition, three important changes in governance practices occurred in this early period, which remain significant today: decision-making in informal groups outside the

Fund; the growing role of the G-10, and the imposing of an 85 percent majority requirement for certain types of decision. These are discussed in what follows.

Informal groups outside the Fund

13. During the late 1940s to mid-1950s there developed a practice of informal meetings at a senior level by U.S. officials with a handful of European counterparts, either in small groups or on a bilateral basis. The practice of discussing matters within the IMF's mandate in informal groups led to situations where important decisions were effectively taken in the outside groups.

The Group of Ten and the general arrangements to borrow

14. A special example of an external group that effectively took decisions on matters that affected IMF operations was the group of industrial countries, soon known as the Group of Ten (G-10), whose meetings began in the 1960s. The G-10 met both at the ministerial/governor level and at the "deputies" level—the latter being composed of senior officials from central banks and ministries of finance.

15. The initial impetus for the formation of this group was recognition that the financial resources of the IMF in the early 1960s would be inadequate if the IMF were to face a need to extend substantial amounts of financial assistance to a major country that was an issuer of a reserve currency, such as the U.S. or the U.K. For this purpose, a group of ten countries (Canada, France, Germany, Italy, Japan, U.K., U.S., and some other European countries; with the addition of Switzerland in 1964 the ten became eleven) entered an agreement among themselves and with the Fund to create the General Arrangements to Borrow (GAB). The GAB allowed the IMF, in specified situations and subject to the agreement of the G-10 members, to borrow substantial amounts in order to finance, for example, a stand-by arrangement with a major industrial country.[1]

16. The G-10 also became active in other ways. In practice, it became the leading forum for discussions among the industrial countries on matters such as the role of gold, the creation of a new reserve unit (eventually taking the form of the SDR), and other monetary matters. The G-10 described its function as "multilateral surveillance"—a term that was subsequently imported into the Fund. On the suggestion of the G-10, a special working group (WP3) of the OECD's Economic Policy Committee, with the same membership as the G-10, undertook to discuss the balance of payments adjustment process of the industrial countries. The rationale for holding these discussions within a limited group rather than in the IMF Board was a sense that these matters could best be resolved in a small group, and also that

[1] The GAB were subsequently activated on a number of occasions, for example, to help finance substantial drawings from the Fund by the U.K., France, and Italy, and are still in effect.

they were mainly of interest to the industrial countries. Part of the reason was that most of the needed adjustment in the U.S. balance of payments was expected to have as its counterpart a reduction in the European countries' surpluses.

17. The formation of this small outside group, to discuss in detail matters that many considered were properly the business of the IMF Executive Board, caused great resentment among those who were excluded. The Australian executive director at the Fund complained that the G-10 was "a very exclusive club," and Australia and Portugal unsuccessfully demanded admission to the new "club."

18. The developing countries were particularly concerned that a new ideology of cooperation among the industrial countries was replacing the universal aspirations of Bretton Woods. They were also upset that that the GAB was set up in such a way that there was a "double lock" on IMF resources, namely that, in addition to a decision by the Executive Board, the G-10 would decide (at the ministerial level) on any Fund stand-by arrangement that included GAB financing. It was in reaction to the activities of the G-10 that the developing countries subsequently formed their own groups—first the G-77 within the United Nations and then, as a subgroup of the G-77, the G-24 within the context of the IMF and World Bank—to discuss international economic issues and develop common positions.

19. A lasting consequence of the formation of the G-10 for the Fund's governance, therefore, was that it began—or perhaps catalyzed—a process of polarization between the industrial countries and the developing countries that has since become a marked feature of the institution.

The creation of the SDR: the 85 percent majority requirement and the veto

20. Another development of great significance for the governance of the IMF was that, when the negotiations on the main features of the future SDR were ready to be taken to the next stage, involving the whole of the IMF's membership, a new negotiating framework was devised. The format chosen was a series of joint meetings in 1966–67 of the executive directors of the Fund and the deputies of the G-10. Subsequently the details of the SDR and the decisions to create it were worked out in the Executive Board, including the necessary proposal to amend the Fund's Articles of Agreement (the First Amendment).

21. It was at this stage that the European countries insisted on a new requirement for a special majority, namely 85 percent of the total votes in the Board of Governors, in order to give the members of the European Union, as a group, a veto over a possible allocation of the SDR. This "veto" effect has since become one of the distinguishing—and controversial—features of Fund decision making.

B. Fund Governance, 1970 to the Late 1990s

The Committee of Twenty and the outline of reform

22. The next major development with lasting significance for the IMF's present governance structure was the Second Amendment of the Articles of Agreement, which took place in 1978 and involved the formation of yet another special group or committee, but this time within the Fund.

23. The circumstances were dramatic and unusual. Following the breakdown of the Bretton Woods system of fixed but adjustable par values in the early 1970s, an attempt was made to negotiate a complete reform of the international monetary system. This time, the U.S. authorities decided that the G-10 was not a suitable forum for negotiating the reform—apparently because the Group was over-representative of Europeans and had no representation of the developing countries.[2] It was agreed to bring the reform debate back into the IMF—though not to the Executive Board. Though no explicit reason was given for this, the desire seems to have been to have representation at a more senior level than that of executive directors, including by players who could make decisions on behalf of their governments.

24. Thus a new committee was formed—the "Ad hoc Committee on Reform of the International Monetary System and Related Issues," also known as the "Committee of Twenty (C-20)"—as a forum within which to attempt to build a coherent international monetary system. This step marked an attempt to bring back into the Fund the main deliberations on the future of the international monetary system. This Committee was not intended to be permanent. It comprised three representatives from each of the 20 constituencies that were then represented on the IMF Board—one minister, one central bank governor, and the executive director. The Committee met at both the level of ministers and the deputy level, where the "deputies" were senior civil servants and central bank officials, aided by the Fund's senior staff. During its relatively short life, the Committee was very active both at ministerial level and at the level of deputies.

25. It became apparent to the Committee of Twenty that in the disturbed economic circumstances of the early 1970s (a sequence of major currency crises, high inflation in the main industrial countries, and the impact of two oil shocks, leading to recession), the time was not ripe for establishing a complete and well-functioning reformed international monetary system. In particular, it was not politically possible to reestablish a system of fixed but adjustable par values, and there was no firm agreement on any alternative system.

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[2] The U.S. was also dissatisfied with the G-10 process because the 1968 Bonn summit of the G-10 had failed to produce the expected realignment of exchange rates.

26. Thus in October 1974 the Committee of Twenty proposed, in its "Outline of Reform," that some elements of reform be put in place immediately but that consideration of more basic reforms be continued elsewhere. In practice, the temporary or provisional arrangements that were put in place in 1976 have remained virtually unchanged to this date. Major reforms of the Fund have been proposed from time to time but not adopted.

27. The partial reforms proposed by the Committee of Twenty were implemented through a major amendment of the Articles of Agreement. This Second Amendment was adopted by the Board of Governors in 1976 and came into effect in April 1978, upon acceptance by the requisite three-fifths of the members with four-fifths of the voting power. The reforms included, especially, the effective legalization of floating exchange rates, and replacement of the previous par value system by a new set of rights and obligations for member countries as regards their choice of exchange rate regime and their exchange rate policies (Article IV), together with a new function of the Fund to exercise "firm surveillance" of the exchange rate system. Other important reforms included an agreement to phase out the monetary role of gold and enhance that of the SDR.

28. With respect to Fund governance, the Second Amendment thus embodied three key changes:

- a shift in the balance between rules and discretion, towards more scope for discretion; this was especially important for members' new obligations with respect to exchange rates and the macroeconomic policies that can affect exchange rates, and the concomitant role of the Fund to exercise "surveillance" over exchange rates, the international financial system, and members' policies.

- a big increase in the reliance on special majorities (which increased the scope for effective vetoes by several groupings of members); and

- an attempt to strengthen the degree of political oversight of the Fund by establishing a decision-making Council at the ministerial level.

29. Because many of the systemic changes that were proposed in the Outline of Reform (and ultimately embodied in the Second Amendment) were novel or controversial, and because some of them involved political compromises that were difficult to reach, the package of measures agreed within the C-20 and embodied in the Second Amendment included a large increase in the number of decisions that would require a special majority of votes: requirements for special majorities were applied to some 39 additional types of decisions.[3] However, one simplification was to reduce the range of special majorities to

[3] Since the First Amendment of the Articles (effective 1969), only 18 types of decision had been subject to special majorities.

three—an absolute majority of votes cast, 70 percent of the total votes, and 85 percent of the total votes.

30. By comparison with the Bretton Woods system, which emphasized rules rather than discretion, the arrangements introduced by the Second Amendment showed less reliance on firm rules and a greater reliance on principles, sometimes rather vaguely expressed. Many of the new requirements for special majorities can best be understood as mechanisms for groups of members (especially the developing countries as a group, the Europeans as a group, and the U.S. by itself) to create safeguards and protect their important interests against possible misuse of the new scope for the exercise of judgment.

The proposed Council and the Interim Committee

31. To strengthen political oversight of the Fund, the Committee of Twenty recommended that "it would be desirable to establish by amendment of the Articles of Agreement a permanent and representative Council." The proposal was for a decision-making and political body at the minister/governor level, with the same 20 constituent members as the Executive Board had at that stage. The proposed Council, in addition to "managing and adapting the international monetary system," would "review developments in the transfer of real resources to developing countries."

32. This proposal for a new decision-making body, intermediate between the Board of Governors and the Executive Board, was controversial. At the request of the developing countries (through a G-24 meeting), the establishment of the Council was made subject to an 85 percent majority of votes in the Board of Governors, thus providing the developing countries with an effective veto. With this safeguard, the possibility of setting up the Council, and provisions for its main features, were then embodied in the Articles of Agreement as part of the Second Amendment.[4]

33. As an "interim measure" until the expected Council was established, the Board of Governors adopted a resolution (requiring only a 50 percent majority) to create the IC. The IC was modeled on the Committee of Twenty and its mandate was very similar to that of the proposed Council, including to "manage and adapt the international monetary system…" and to "advise and report to the Board of Governors…." However, unlike the Council, the IC was intended to be an advisory body only, and would not jeopardize the Executive Board's decision-making powers.

34. The IC functioned essentially as the Fund's main policy advisory body at the ministerial level from 1976 until 1999, when it was replaced by the IMFC with the same membership and a similar mandate. The composition of the IC was modeled on the same

[4] See Mountford, 2008, "The Formal Governance Structure of the International Monetary Fund", Appendix 2.

country constituency as the Executive Board, but at the level of ministers/governors; each member had the right to appoint seven associates, to manage the needs of multi-country constituencies. It was envisaged initially that the IC might meet several times a year, but soon the Committee fell into the practice of meeting only twice a year. As it was an advisory committee, there was no voting in the IC; and since there was no voting, the adoption of a recommendation by the IC required broad agreement among Committee members. There was no provision for "deputies," and instead it was provided that the executive directors would undertake the preparations for the meetings of the IC.

35. In practice, the IC developed a more prominent role in the Fund's governance than was originally intended. Although its formal role was to advise the governors, it soon evolved into a body that, through its reports to the governors and its communiqués issued to the public, was mainly concerned with providing ministerial-level feedback and recommendations to the Executive Board. In view of the seniority of the Committee members and the fact that the Committee's recommendations and other pronouncements are adopted by broad agreement, the IC soon became a very authoritative source of ministerial guidance. The Board of Governors has, in practice, acquiesced in this role played by the IC.

36. The central role played by the IC in the governance of the Fund can best be illustrated by considering how the Fund as an institution responded to major new challenges or crises in the global economy. To each new development, the IMF's institutional response followed a similar iterative pattern: work by the Fund's management/staff and Executive Board, punctuated by reports to the IC, which would provide ministerial-level guidance and feedback, and a repeat of this pattern every six months. It can be said, therefore, that the IC fulfilled some major elements of the governance role that formally belongs to the Board of Governors.

The Group of Five and the Group of Seven

37. The Group of Five (G-5) started as the "Library Group," in which the finance ministers of four countries (U.S., U.K., France, and Germany), and their most senior officials, met informally in the library of the U.S. Treasury in March 1973 to discuss matters of mutual interest concerning the global economy. Japan joined the group at the IMF meeting in September 1973. The group soon became institutionalized as the G-5, and expanded its attendance to include the five central bank governors. When two of the five original finance ministers soon afterwards (1974) became heads of state of their countries (France and Germany), the G-5 meetings began to be replicated at the level of heads of state or of government, with annual "summits" held to discuss world economic affairs. In due course (1986), with the addition of Italy and Canada, most of the G-5's functions were taken over by an enlarged group, the G-7, which still meets regularly. In recent years the G-7 has, on occasion, invited Russia to participate in its meetings, when it becomes the G-8.

38. The G-5 and later the G-7/G-8 have since operated as a dominant element in global economic governance, and not only in the governance of the Fund.

C. 1999 to the Present—the IMF's Governance Under Attack

39. The IC fulfilled the limited governance role assigned to it by the Board of Governors, but public concern about Fund governance was widespread and growing. There were several strands to this concern.

- One element was substantive: the Fund's inability to secure better economic policies in some systemically important countries.
- Frustration was growing at the failure of the Fund's governance arrangements to resolve such issues as the structure of members' quotas (including relative voting powers) and the outstanding issue of an allocation of SDRs.[5]
- Some of the Fund's major programs of financial assistance to some large and systemically important members—Russia, and the East Asian emerging market countries that experienced financial crises in the late 1990s—came under attack by parts of civil society, and even by some member countries.
- There was a heightened public awareness and concern about some substantive aspects of the Fund's work, such as structural conditionality, and the Fund's roles in tackling problems of debt relief and poverty. Among the governance aspects that attracted concern and criticism, particularly from developing countries and many elements of civil society, were the Fund's relative lack of transparency, the existence of the so-called "U.S. veto," and a perceived "democratic deficit" due to the weaker position of the developing countries in the Fund's decision-making processes, relative to that of the industrial countries and by comparison with what many observers would consider a more fair distribution of voting power.

40. These related strands of criticism all contributed to the recognition of a need to re-examine the Fund's governance structure, and to an increased willingness by the Fund's governing bodies to discuss changes.

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[5] The clearest example of this kind of stalemate—and an illustration of how the 85 percent majority requirement, by giving an effective veto to several groupings of members, can lead to an inability to act—was initiated by the success of the developing countries at Madrid 1994 in blocking a proposal by the industrial countries to allocate SDRs to new members only (i.e., those that had not participated in any allocation); this was followed by the approval in 1997 by the Board of Governors of a proposal for a Fourth Amendment to allow an allocation to all members, but to date this amendment has not come into effect because the U.S. has not accepted it.

The Fund's responses to criticism of its governance

Greater transparency and outreach

41. Part of the Fund's response was to expand outreach activities and to increase the transparency of the institution. As late as the mid-1990s, the Fund had still placed considerable emphasis on maintaining its confidential role as an advisor to member countries—to such an extent that it had developed a reputation for excessive secretiveness. The Fund has since become a more open institution, including by publication of many types of reports that hitherto were treated as confidential. In addition, it has become more receptive to outside criticism, and has also created the Independent Evaluation Office to undertake evaluations of Fund policies and practices. Management, senior staff, and members of the Executive Board now interact more with the outside world.

Replacing or supplementing the Interim Committee

42. Another main area of focus was the IC, including the place of the Committee in the chain of accountability. The view was growing that the role of the IC itself needed to be strengthened, and that either through a revamped IC or by some other means there should be a heightened degree of political oversight over the Fund. The discussions through which the membership addressed these concerns led to three initiatives in 1999/2000, each designed to strengthen the Fund's corporate governance:

- the replacement of the IC by the IMFC;
- an attempt to re-launch the idea of a Council as a political decision-making body at an intermediate level between the Governors and the Executive Board; and
- the creation by the G-7 of two new bodies outside the Fund but linked to it, the G-20 as a new "steering committee" and the Financial Stability Forum (FSF).

43. The IMFC was created in 1999 essentially as a somewhat strengthened version of the IC. Its establishment, with a new title to signify that this was to be a permanent committee (and no longer an "interim" solution), was intended to bolster political oversight over the Fund. One notable feature was the creation of "deputies" of the IMFC, who took over, at least partly, the role of the Fund's executive directors in preparing the ministerial meetings. This change was also expected to give an additional political impetus to the IMFC's deliberations.

44. In practice, this "advisory committee," like the IC, has become the main source of ministerial-level advice and feedback to the Executive Board. It also appears to have taken more of an initiative in proposing policy changes, with less inclination to merely respond to proposals and initiatives originating from management and the Executive Board.

45. In view of the apparent failure of the Fund's governance framework (including, at the political level, the IC) to deal effectively with a number of politically charged issues, there was some feeling that only a properly constituted Council, as a political decision-making body, could handle such difficult issues at the ministerial level. An impetus to reconsider establishing the Council, and thereby reinforce political accountability in the Fund, was given in 2000 by the then Managing Director of the IMF, Michel Camdessus. But the proposal did not attract enough support (it would require 85 percent of the voting power in the Board of Governors), and the Council was again not activated.

The Group of Twenty

46. Also in 1999, the June G-7 Summit, while welcoming the creation of the Fund's IMFC, declared a G-7 commitment to work together "to establish an informal mechanism for dialogue among systemically important countries, within the framework of the Bretton Woods institutional system." The following September, the G-7 finance ministers created a new informal forum, soon to be renamed the "Group of Twenty" (G-20), as "a new mechanism for informal dialogue in the framework of the Bretton Woods institutional system, to broaden the dialogue on key economic and financial policy issues among systemically significant economies and to promote cooperation to achieve stable and sustainable world growth that benefits all."[6]

47. The membership of the G-20 comprises the finance ministers and central bank governors of 19 countries (Argentina, Australia, Brazil, Canada, China, France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa, South Korea, Turkey, UK, and USA). The EU is also as member. Representatives of the Bretton Woods institutions—the Chairs of the IMFC and Development Committee, the President of the World Bank and Managing Director of the IMF—also participate in G-20 meetings on an ex officio basis. As a deliberative body, the G-20 is designed to help "the formation of consensus on international policy issues, with a mandate to promote international financial stability."

48. Its legitimacy however, is undermined, relative to that of the IMFC (which has a similar and overlapping mandate), by the lack of any representation of the other 165 member countries of the Fund.

49. Also created on the initiative of the G-7 in 1999, the Financial Stability Forum (FSF) has the mandate to promote global financial stability, so that its mandate also overlaps significantly with that of the IMF. The Forum meets twice a year. The members include the

[6] G-7 Communiqué, September 1999. In fact, the origins of this new steering committee were somewhat complex. Starting as the G22 or "Willard Group" in November 1997, it was superseded in early 1999 with an expanded membership to become the Group of 33, which in turn was superseded later in 1999 by the G20.

international regulators and supervisory groupings in the fields of banking, securities, and insurance of the member countries, plus the IMF, World Bank, and OECD, plus two technical experts. Together with the World Bank, the Fund cooperates with the FSF through the preparation of financial sector assessment programs for member countries. The head of the Bank for International Settlements (BIS) chairs the FSF in a personal capacity, and a small secretariat is based at the BIS.

IV. Does the Present Governance Structure Accord with the Articles and with Good Standards of Corporate Governance?

50. This chapter raises issues with respect to the present system of Fund governance, from two main perspectives:

- Do the governing organs of the Fund still fulfill the functions envisaged in the Articles of Agreement? If not, why is this? Are the changes that have occurred consistent with the good governance of the institution? And are the underlying principles of the Articles adequately preserved and the basic purposes pursued?

- Does the present system of governance accord well with the basic governance values of responsibility, efficiency, effectiveness, transparency, and accountability?

A. Board of Governors

51. Because of its size and composition, and the infrequency with which it meets, the Board of Governors has never (except perhaps at the inaugural meeting in 1946) proved to be a suitable body for high-level negotiation of complex important issues, nor for the formulation and debate of important strategic choices for the institution. In practice, the Annual Meeting of the governors has become largely ceremonial, and is mainly useful as the focus around which other important bodies have clustered their meetings.

52. The Board of Governors can appoint advisory committees, and has done so on several occasions. There are at present four such committees.

The IMFC

53. The IC/IMFC has evolved into the most important policy-forming committee of the IMF—and in effect it both supervises and gives instructions (in the form of feedback and advice) to the Executive Board, through its communiqués. The IMFC communiqués are now among the most important public pronouncements at ministerial level on all key matters relating to IMF policies and operations and the problems of the world economy more generally.

54. Is this transformation of the role of the IMFC consistent with good governance? One would like to say yes—because the Committee's role has evolved in response to the practical

needs of the Fund for political guidance, because it has filled a perceived gap, because the Committee has manifestly proved a very useful institution, and because the Board of Governors has implicitly acquiesced in this assumed role over a period of three decades.

55. This said, some observers may perceive a governance issue because the IMFC has, de facto, become a decision-making rather than an advisory body. The Board of Governors can appoint an advisory committee, on the basis of a resolution alone (requiring a 50 percent majority) but to create a decision-making committee would require either an amendment of the Articles (by an 85 percent majority) or the creation of the Council itself (also requiring an 85 percent majority). Thus, allowing the IMFC to assume a role that amounts to a decision-making one is a circumvention of the Articles.

Other committees of the Board of Governors

56. The Development Committee has followed a parallel evolution to that of the IC/IMFC, with the difference that it is a joint committee of the IMF and the World Bank and has become in practice a "mainly Bank" institution.

57. The other two joint committees are relatively uncontroversial. The Joint Procedures Committee has proved its usefulness in handling procedural issues. Similarly, the JCR Committee has fulfilled its limited specific role in advising the governors on the pay and benefits of the executive directors. The only issue of possible "governance" significance is whether the mandate of the JCR, or a similarly devised committee, could be adapted to turn it into an effective body for making the Executive Board, collectively, more directly accountable to the governors.

B. Executive Board

58. Over the years the Fund has developed work practices that, in effect, have the Fund staff and management doing much of the preparatory work in a number of key areas—surveillance, policy development, and use of Fund resources (UFR). An issue of some importance, therefore, for assessing the governance of the Fund is the extent to which the Executive Board has in practice delegated its powers to the staff.

59. Has the Board effectively retained its powers of decision-making or has it, to put it crudely, become a rubber stamp that merely endorses the proposals formulated by staff and supported by management? Views on this important issue differ widely, even among insiders. It is useful in discussing this issue to differentiate between surveillance cases (especially bilateral surveillance) and situations involving the use of Fund financial resources.

Surveillance

60. As indicated earlier, the typical pattern of work on bilateral surveillance (e.g., Article IV consultations) involves extensive preparatory analytical work by the staff, culminating in a visit to the country concerned, to hold discussions with the economic authorities and other stakeholders. The mission will typically conclude its talks by delivering a staff statement to the authorities, giving its preliminary views on the economy and policies, and making its recommendations. For most countries, this is the time when the consultation process has its biggest impact—when there can be an exchange of views with the country's policymakers on current policies, based on the most up-to-date assessment by the staff experts.

61. Typically the Executive Board will only see, some three months later, a refined and completed staff report, with a final version of the staff assessment. The papers that go to the Board may be more complete and certainly will have been subjected to clearance by other departments and approval by the Fund management, but the basic policy messages are likely to be broadly the same as when the mission visited the country.

62. One issue then, is what is the value added—to the country under surveillance, and to the Fund itself—of the Board's intervention? It has been noted that the Board, which conducts about 150 such consultations a year, is at an information disadvantage by comparison with the staff, whose team has immersed itself in the work on that particular country. Also, the Board usually "endorses the thrust of the staff appraisal." So it seems to some observers that the value added by the Board is minimal.

63. In the opinion of the author, however, this view ignores the important fact that the Executive Board represents the viewpoints of the entire membership, and, as a political counterweight to the technocratic staff, provides the necessary "legitimacy" to the surveillance process. The views of directors—typically provided in written form as "grays," are reflected in the formal Board minutes, and the combined assessment of the country's policies by the Board, with majority and minority views carefully expressed, is reflected in the "summing up," which in many cases is subsequently published as a public information notice. On this analysis, therefore, it is the author's view that the Board has retained and exercised its appropriate powers with respect to surveillance, and has not delegated its essential responsibilities to the staff.

Use of Fund resources (UFR)

64. The feeling of some observers that in practice the Executive Board is a mere "rubber stamp" for decisions that are really taken at the level of staff or management is often expressed most strongly with respect to transactions involving a member's use of Fund resources.

65. This is fostered by the fact that the Board rarely if ever rejects a proposal from Fund management for a Fund program with a member country. There are two overlapping reasons for this.

66. First, there is a long-standing recognition, established in the early days of the Fund, that it is more efficient for the Fund to have the staff, under the control of management, conduct the discussions and negotiations with the member country, though subject to detailed guidelines approved by the Board. The view is also held in the Board that it would be improper for the Board—and unfair to the member country concerned—to reject a program that has already been the subject of perhaps lengthy and detailed negotiation between the staff and the authorities. This principle, known as the Kafka rule, after a former executive director for Brazil who enunciated it, is an informal convention, but one that has been followed for a long time. It is understood that, if executive directors do not like a particular feature of a country program, they will explain why and the management/staff will take this view into account in future cases.

67. Second, and perhaps more important, it would be very strange if the staff prepared, and management proposed, a program for Board approval that was markedly inconsistent with existing Fund policies that have been approved by the Executive Board, or that was inconsistent with the basic principle of uniformity of treatment, or ignored such basic elements of Fund policy as the conditionality guidelines or the access limits. Where management proposes a program that in some way impacts the standing policies, that is always a matter of Board discussion and approval.

C. The Chain of Accountability

68. The chain of accountability in the IMF raises some interesting governance issues. The main elements are the following:

- The staff members are directly accountable to the Managing Director, who manages their work under the "general control" of the Board.
- The deputy managing directors are appointed by the Managing Director and accountable directly to him.
- The Managing Director is directly accountable to the Executive Board. Although the Board, on a day-to-day basis, does supervise and critique the work of the Managing Director (and the staff), it does not appear that the Board has developed a formal or methodical procedure for regularly holding the Managing Director accountable. This is a clear weakness in governance. If the Board does develop such a procedure, it would seem appropriate to extend that procedure to the deputy managing directors.
- The accountability of executive directors must be assessed in terms of both their individual accountability and that of the Executive Board as a body.

- Executive directors *individually* are accountable to the governors who appoint or elect them. There do not appear to be any formal mechanisms for holding individual directors accountable. If this is considered to be a weakness, it would be for the governors to decide on a suitable mechanism.

- Executive directors *as a group* are in principle accountable to the Board of Governors as a body. Governors at present have no formal mechanism with which to assess this accountability. This is clearly a weakness, which could be addressed by the governors establishing a separate committee for this function, or by adapting the mandate and membership of an existing committee of the governors (e.g., the JCR) to hold the executive directors more accountable.

- The governors are accountable to their own governments, in accordance with each country's own arrangements.

- In addition to this chain of formal accountability, all the constituent elements of the Fund, are, increasingly, being held accountable to public opinion and civil society organizations. The issue of Fund accountability lay behind the proposals made by Managing Director, Michel Camdessus, in 2000, to replace the advisory IMFC by the decision-making Council, as an organ that would occupy an intermediate position between the Board of Governors and the Executive Board. The Council would, he proposed, be responsible for deciding on the major strategic issues facing the Fund. This would, he proposed, ensure that "the Fund is seen more visibly to have legitimate political support of our shareholders." This would improve the Fund's public accountability, because "The problem is not that we are not accountable, but that we are not seen to be accountable, and that some member governments from time to time find it convenient not to express their public support for actions they have supported in the Executive Board." In his later elaboration of the proposal to establish the Council (2005), Mr. Camdessus noted that "the Council…would be the ideal place to discuss the policies needed to address global systemic issues with a global membership, and thus to take the place also of the G-10, G20, and other Gs."[7]

[7] Per Jacobssen lecture, September 2005.

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