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EVALUATION REPORT

Governance of the IMF An Evaluation

2008

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Main Report (Arabic, Chinese, English, French, Japanese, Portuguese, Russian, and Spanish)

Background Documents (English)

Statements and Comments from IMF Management and Staff and the External Audit Committee (English, French, and Spanish)

Joint Statement by the Executive Board and the IMF Managing Director (English, French, and Spanish)

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- In tables, a blank cell indicates “not applicable,” ellipsis points (. . .) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2005–06 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- “Billion” means a thousand million.
- “Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ of 1 percentage point).
- As used in this publication, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.
- Some of the documents cited and referenced in this report were not available to the public at the time of publication of this report. Under the current policy on public access to the IMF’s archives, some of these documents will become available five years after their issuance. They may be referenced as EBS/YY/NN and SM/YY/NN, where EBS and SM indicate the series and YY indicates the year of issue. Certain other documents are to become available 10 to 20 years after their issuance, depending on the series.

Foreword

This evaluation report calls for major changes in the governance of the Fund to strengthen its relevance and accountability and allow it to continue to play a central role in global financial and monetary matters into the future. It is an unusual evaluation for the IEO in many ways. It examines the quality of the Fund’s overall governance arrangements, rather than the quality of its outputs or of specific processes within the organization as is the case in other evaluations. The main focus of this evaluation is the IMFC, the Board and Management, and not Management and Staff as is usually the case. As a consequence, follow up for this evaluation requires a different process, in particular it requires the active involvement of the Fund’s political masters. While the Board and Management can undertake some changes, the main decisions and the bulk of the effort would fall on Ministers and Governors, as direct representatives of the membership.

Improving its governance is widely recognized as a critical element in enhancing the Fund’s relevance, legitimacy, and effectiveness. The Fund started some 60 years ago as the guardian of the par value system, with 44 member countries and 12 Executive Directors. Today, the par value system is long gone, and the Fund has 185 member countries and 24 Executive Directors. While roles have evolved over time, in many ways the formal structure and many practices remain largely untouched; and the evaluation found that reforms have not kept pace with changes in the membership and in the environment in which it operates.

This report has four main recommendations and includes a series of detailed measures specific to each of the main governance bodies. First, it found that greater clarity is needed in the respective roles of the main governance bodies to minimize overlaps and to address possible gaps. Second, it identified the need for more systematic ministerial involvement and calls for the activation of the Council of Ministers, provided for in the Articles of Agreement, as the ultimate decision-making body for the institution. Third, it recommends reorienting the Executive Board’s activities away from executive day-to-day operational activities towards a supervisory role—thereby enabling the Board to play a more effective role in formulating strategy, monitoring policy implementation to ensure timely corrective action, and exercising effective oversight of Management. Finally, a framework needs to be in place to hold management accountable for its performance. Many of these issues are complex, interrelated, and need to be discussed holistically.

It is a sign of institutional strength and of the Fund’s willingness to learn and improve that it has been open to an independent evaluation of its own governance. The Executive Board and Management have welcomed the IEO report as an important contribution to efforts to enhance the Fund’s relevance and legitimacy. It is now important that the IMFC and other Governors engage fully in setting the path for significant governance reform. This will not be an easy task, and we hope this volume will help inform those efforts.



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Director
Independent Evaluation Office

Governance of the International Monetary Fund: An Evaluation

This report was prepared by an IEO team headed by Ruben Lamdany and which included Leonardo Martinez-Diaz, Jeff Chelsky, Alisa Abrams, Jeffrey Levine, Borislava Mircheva, and Roxana Pedraglio. The team was assisted by contributions from Markus Berndt, Biagio Bossone, Katrina Campbell, Scott Clark, Mariano Cortés, Alexander Mountford, David Peretz, Alexander Shakow, and Randall Stone. The evaluation also benefited from contributions from Marc-Antoine Autheman, Amar Bhattacharya, Jack Boorman, Bob Garratt, Joanne Salop, and Madras Sivaraman who participated in early IEO workshops or provided written comments. However, the final judgments are the responsibility of the IEO alone. Administrative assistance was provided by Jeanette Abellera, Arun Bhatnagar, and Annette Canizares. Editorial assistance was provided by Rachel Weaving. The report was approved by Thomas A. Bernes.

Abbreviations

AfDB	African Development Bank
AsDB	Asian Development Bank
BIS	Bank for International Settlements
CAM	Committee on Executive Board Administrative Matters
CEO	Chief executive officer
CSO	Civil society organization
DC	Development Committee
DMD	Deputy Managing Director
EAC	External Audit Committee
EBRD	European Bank for Reconstruction and Development
EIB	European Investment Bank
FDMD	First Deputy Managing Director
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 grouping composed of major industrial countries and systemically important developing and emerging market countries
G-24	A grouping of 24 developing countries that coordinate their positions on international monetary affairs and development
GEF	Global Environment Facility
HIPC	Heavily Indebted Poor Countries
HRD	Human Resources Department
IADB	Inter-American Development Bank
IC	Interim Committee
IIA	Institute of Internal Auditors
IMFC	International Monetary and Financial Committee
Management	Managing Director, First Deputy Managing Director, and two Deputy Managing Directors
MD	Managing Director
MTS	Medium-Term Strategy
NGO	Nongovernmental organization
OED	Office of Executive Director
OIA	Office of Internal Audit and Inspection
OMD	Office of Managing Director
SU	Summing Up
TA	Technical assistance
UFR	Use of Fund resources
UNDP	United Nations Development Program
WHO	World Health Organization

Executive Summary

This evaluation assesses the degree to which Fund governance is effective and efficient, and whether it provides sufficient accountability and channels for stakeholders to have their views heard. The focus is on institutional structures as well as on the formal and informal relationships between the Fund's main bodies of governance: the Executive Board, Management, and the International Monetary and Financial Committee (IMFC).

For much of the past six decades, gradual reforms in its governance allowed the Fund to remain relevant in a changing world economy. But the reforms have not kept pace with changes in the environment in which it operates. Today, the institution's legitimacy and relevance are being questioned. Much attention has recently been focused on quotas and voting power, but broader governance reform also holds the potential to strengthen the Fund's legitimacy, accountability, and effectiveness.

Overall, effectiveness has been the strongest aspect of Fund governance, allowing fast and consistent action particularly in times of systemic crisis. On the other hand, accountability and voice have been its weakest aspects, which if left unaddressed would likely undermine effectiveness over the medium term. The evaluation has four broad conclusions and recommendations, and it proposes a series of detailed measures specific to each of the main governance bodies.

First, there is a lack of clarity on the respective roles of the different governance bodies, and in

particular between the Board and Management. To strengthen the IMF's effectiveness and to facilitate accountability, the roles and responsibilities of each of its governance bodies need to be clarified with a view to minimizing overlaps and addressing possible gaps.

Second, the Fund needs more systematic ministerial involvement. The IMFC, as an advisory body, lacks a mandate for setting strategic directions and providing high-level oversight of the institution. To fulfill these functions, the evaluation calls for the activation of the Council, as contemplated in the Articles of Agreement, which should operate with a high degree of consensus, perhaps through the use of special majorities.

Third, the Board's effectiveness is hindered by excessive focus on executive, rather than supervisory, functions. The Board should reorient its activities towards a supervisory role, playing a more active part in formulating strategy, monitoring policy implementation to ensure timely corrective actions, and exercising effective oversight of Management. To this end, the Board would need to change many of its working practices, shifting away from executive, day-to-day operational activities, including through more delegation to committees and possibly to Management.

Finally, a framework needs to be put in place to hold Management accountable for its performance. Work is under way to set up such a framework, which should specify criteria and a process for regular assessments.

Introduction

1. This evaluation assesses the governance arrangements of the International Monetary Fund and identifies areas where they can be strengthened to help the Fund better fulfill its mandate. It defines governance as the institutional structure and the formal and informal relationships that govern the organization's decision-making processes and activities. Good governance can contribute to the IMF's legitimacy by ensuring appropriate representation for the membership and by facilitating transparency that allows scrutiny by relevant stakeholders. It allows the Fund to fulfill its mandates effectively and efficiently, it renders the Fund and its main organs accountable to the membership, and provides voice to relevant stakeholders. These four dimensions—effectiveness, efficiency, accountability, and voice—constitute the conceptual framework of this evaluation. The overarching evaluation questions are the following: To what degree do the Fund's governance arrangements allow the institution to operate effectively and efficiently? To what degree do these arrangements render the IMF accountable, and do they provide the membership with voice in decision making?¹

2. This evaluation focuses on the three central entities of governance in the Fund: the International Monetary and Financial Committee (IMFC), the Executive Board (Board), and Management. Above these is the Board of Governors, composed of ministers or central bank governors from each of the 185 member states, which has delegated most of its powers to the Board. The Board is responsible for conducting the business of the Fund in accordance with the powers delegated to it by the Governors. It is composed of 24 Executive Directors (Directors), 5 of whom are appointed by the IMF members having the largest quotas, and 19 of whom are elected by the

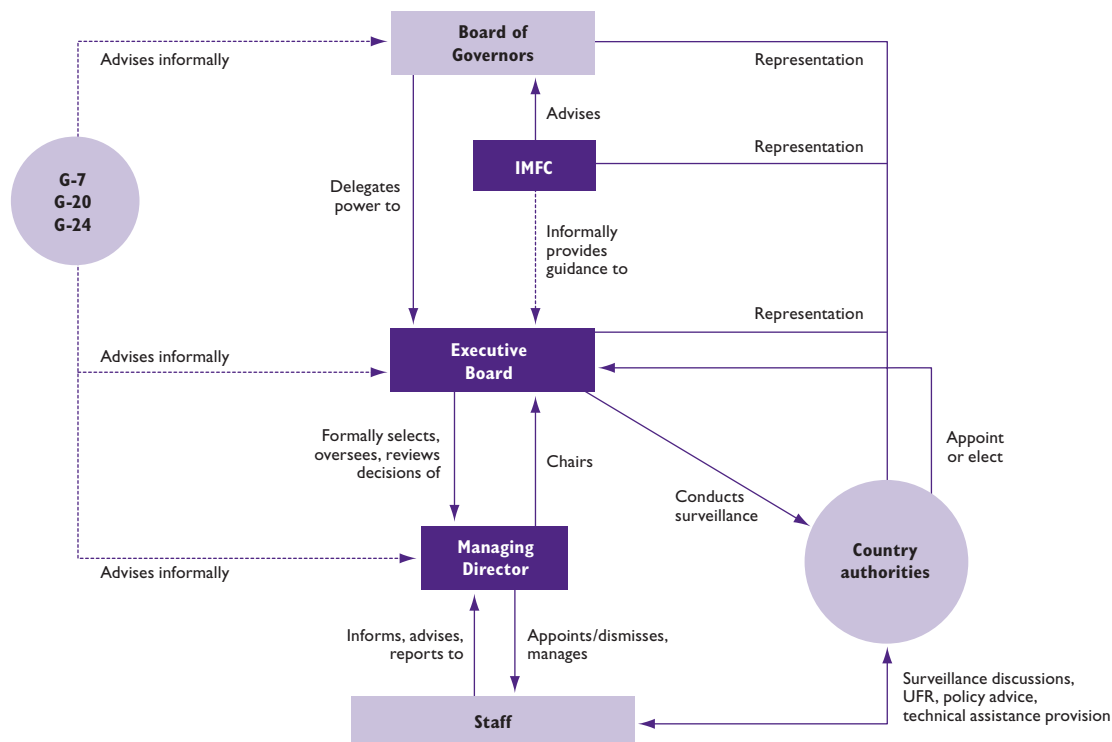
other members and organized in constituencies. Voting power on the Board is determined by members' quotas. The IMFC is composed of 24 Governors, reflecting the constituencies in the Board. The IMFC meets twice a year and it is charged with advising the Board of Governors on matters related to the management of the international monetary and financial system. Management is composed of the Managing Director (MD) and three deputies. The MD is both the non-voting chair of the Board and the "chief of the operating staff of the Fund." The MD is charged with conducting "the ordinary business of the Fund" under the "general control" of the Board. Figure 1 shows the Fund's main governance structures as well as their relationships. Annex 1 contains a detailed description of the Fund's governance structure and practices.

3. Over its 60-year life, the Fund's mandate and governance have evolved along with changes in the global economy, allowing the organization to retain a central role within the international financial architecture. The Fund has served as "fire fighter" in systemic crises and as lender of last resort for countries facing balance of payments difficulties; its surveillance mechanisms have served as the platform for dialogue on important policy issues; and it has provided member countries with standards and tools to improve their policies and institutions. These roles and the Fund's achievements have been made possible, in part, by the strengths of its governance arrangements relative to those of other intergovernmental organizations.

4. Equally, though, some of the difficulties the Fund now faces are due to weaknesses in governance. Concerns about legitimacy and relevance go beyond quota issues, which are outside the scope of this evaluation. They include unease about the process for selecting the MD and his deputies and about unclear or inadequate lines of accountability, as well as perceptions that the Fund has been slow to identify emerging problems and risks and failed to devise and agree on strategies to address them. Part of the explanation for these difficulties may be a lack of clarity on the respective roles of the IMFC and

¹Governance has also been put on the agenda in other intergovernmental organizations, several of which have undertaken studies with a view to improving their governance arrangements. For example, governance assessments have been prepared for the World Trade Organization, the United Nations, and the Bank for International Settlements. See Sutherland et al. (2004), United Nations (2006), and Bank for International Settlements (2004).

Figure I. Stylized View of IMF Governance



Source: Martinez-Diaz, 2008.

the Board, and on how these bodies should interact with Management.²

²In recent years, numerous proposals for IMF governance reform have been put forward by former Fund officials, officials from member governments, academics, and nongovernmental organizations (NGOs). Background Document IV provides the highlights of some of these reform plans.

5. The remainder of this report is organized as follows. Chapter 2 introduces the analytical framework, methods, and data used in the evaluation. Chapter 3 briefly analyzes the main strengths and weaknesses of the overall IMF governance structure. Chapter 4 presents the main evaluation findings in regard to the IMFC, the Board, and Management, and Chapter 5 concludes with recommendations.

Analytical Framework and Data Sources

6. This chapter introduces the analytical framework of the evaluation, briefly describing the tools and methods used and listing the main sources of information.

A. Analytical Framework

7. The evaluation analyzes the governance of the IMF with reference to four dimensions: effectiveness, efficiency, accountability, and voice. These dimensions are drawn from codes of good governance in the public and private sectors³ and from academic literature on international organizations and private and public sector management.⁴ While these dimensions often complement each other in the exercise of good governance, some of them are also in tension with each other and give rise to difficult trade-offs, which we discuss in the next chapter.

- **Effectiveness** refers to the capacity of Fund governance arrangements to deliver high quality, timely results; specifically, to agree on goals and strategies and to implement them and monitor their results. Effective governance requires that responsibilities are clearly defined, that different parts of the institution work in concert, and that information flows to the right place at the right time, allowing monitoring and evaluation mechanisms to identify problems and trigger corrective processes. Effectiveness-related questions asked

in the evaluation include: Are the responsibilities of the IMFC, the Board, and Management clearly defined? What are the respective roles of the Board and Management in the day-to-day running of the IMF? Do the governance arrangements encourage good strategy formulation, implementation, and oversight? Does the Board operate effectively as a collective? Are the Board's strategic and oversight roles complicated by its executive responsibilities?

- **Efficiency** refers to the costs of IMF governance, both financial as well as in terms of the time of staff, Management, and Board members. Efficient governance requires a clear and coherent division of labor among the organs of governance, avoidance of duplication of effort, and policy-making and implementation processes that involve only as many steps and actors as are strictly necessary.⁵ The evaluation thus looks at the costs of operating the Board and Management, as well as the time and amount of documentation that it takes for issues to be discussed by the Board.
- **Accountability** refers to the ability of shareholders (and possibly other stakeholders) to hold the IMF and its decision makers to a set of standards, to judge whether they are meeting those standards, and to set rewards or sanctions accordingly. Accountability requires a set of benchmarks against which to judge performance, good reporting and monitoring mechanisms, clear lines of authority, and the capacity to sanction an agent whose performance does not meet agreed standards. Concerning accountability, the evaluation asks “What instruments does the Board have to monitor and evaluate Management?” and “How are Directors held accountable in their roles as country representatives and as officers of the IMF?”

³Milestones in corporate governance include the Recommendations of the Committee on Corporate Governance chaired by Marc Vienót (“Vienót Report,” France, 1999); the Report of the Committee on the Financial Aspects of Corporate Governance (“Cadbury Report,” U.K., 1992); the Report of the Kumar Mangalam Birla Committee on Corporate Governance (India, 2000); the Revised Corporate Governance Principles, Japanese Corporate Governance Committee (2001); German Corporate Governance Code (2002); King II Report on Corporate Governance for South Africa (2002); the OECD Principles of Corporate Governance (2004); and the U.K. Financial Reporting Council’s Combined Code on Corporate Governance (2006).

⁴On effectiveness, see Carter and Lorsch (2003) and Garratt (2003). On efficiency, see Cottarelli (2005). On accountability and voice, see Grant and Keohane (2005); and Blagescu et al. (2005).

⁵Broader definitions of efficiency look at costs relative to benefits. In this study, however, benefits are captured under the three other dimensions, and efficiency deals only with the cost of running the different entities of governance.

- **Voice** refers to the ability of IMF members to have their views considered in the decision-making process, and to the ability of other affected stakeholders, including civil society organizations, to have their views considered by IMF governing bodies. To exercise voice in this sense, stakeholders need channels to have their opinions heard, as well as a culture of openness and appropriate safeguards to protect those expressing views that are controversial or unpopular. In regard to voice, the evaluation asked whether adequate channels are open to member states—including those with little voting power but with intensive financial and policy relations with the IMF—to express their views and to have them considered. Also, we asked whether stakeholders besides the authorities have adequate channels for their views and concerns to be considered.

8. Given the Fund's unique character, the evaluation used three standards to assess IMF governance.⁶ The first is the Fund's own governing documents and historical record. The second is the governance arrangements and practices at peer intergovernmental organizations. These organizations are the most comparable to the IMF, though they may not necessarily embody good governance practices. The third standard is principles of good governance that have been developed for private and public sector organizations. In this case, we used only those principles that are relevant to the IMF, taking into account the substantial differences with public and private corporations.

B. Data Sources

9. Team members and consultants prepared 15 background papers that constitute a key part of the evidence base for the evaluation.⁷ The first set of

⁶These standards are described in two background papers (Martinez-Diaz, 2008, and Dalberg, 2008), and are available on the IEO website at www.ieo-imf.org

⁷These papers are listed, with abstracts, in Annex 2, and are available on the IEO website at www.ieo-imf.org. Though used as inputs for this evaluation, they represent the views of their authors and do not necessarily reflect the views of the IEO or the evaluation team.

papers describes the current governance structure and its historical evolution. The second set examines governance standards in other intergovernmental organizations and in private-sector corporations. The case studies that make up the third set illustrate how IMF governance arrangements have worked in practice in a variety of areas, including strategy formulation, operational work (e.g., surveillance, crisis management, and technical assistance), and oversight and accountability (e.g., financial management and conflict of interest). The evaluation and the papers are based on a review of relevant literature, extensive archival research, workshops, and surveys. Structured and semi-structured interviews were conducted with key stakeholders, including current and former members of the Board of Governors, the Board, Management, staff, and others including Fund counterparts in member countries, civil society organizations, and officials from other intergovernmental organizations.⁸

10. Three surveys, covering member-country monetary and fiscal authorities, Board members, and senior IMF staff, were conducted between November 2007 and February 2008 through an external consultant. To ensure that they provided comparable perspectives on the same issues, the surveys contained identical or similar questions as much as relevant and feasible. Responses were received from monetary and fiscal authorities in 117 countries. The Board survey covered current members of the Board, as well as former Directors and Alternate Directors (Alternates) going back to 2000; the response rate was 57 percent. The survey of all B-level (senior) staff received a 44 percent response. An open-ended questionnaire was sent to civil society organizations to gather their views on Fund governance, particularly on issues of accountability and voice.⁹

⁸The evaluation team conducted workshops, focus groups, and structured interviews with: senior officials from more than 25 countries, 29 current and former Directors and about 25 other current and former members of the Board, 8 current and former members of Management, over 50 current and former staff, 22 representatives of civil society organizations, and 38 officials from other international organizations. The questionnaire used for structured interviews is included in Background Document III.

⁹Background Document I describes the survey and presents its main findings. Background Document II presents the questionnaire sent to civil society organizations, and Annex 4 summarizes their views.

Strengths and Weaknesses in IMF Governance

11. This chapter discusses the Fund’s overall governance structures and practices using the framework provided by the four dimensions set out above: effectiveness, efficiency, accountability, and voice. Overall, the evaluation evidence points to effectiveness as the strongest feature of the Fund’s governance. Accountability appears to be the weakest feature and voice is also weak. These weaknesses entail risks to the Fund’s legitimacy, which in turn has a bearing on its effectiveness. This chapter and the following chapter (which discusses the roles and performance of individual governing bodies) examine the complementarities and trade-offs between these dimensions of governance.¹⁰

A. Effectiveness

12. Two important strengths in Fund governance support the institution’s effectiveness. First is the compact management structure, with one Managing Director and three deputies who work closely with senior staff to steer the organization. This structure makes possible a rapid flow of information, and facilitates centralized control of the institution that permits adaptability while maintaining a significant degree of consistency.

13. Second, key characteristics of the Fund’s governance allow it to respond quickly when called to act as “fire fighter” when a country faces a balance of payments or financial crisis. Management, relying on staff, has well-rehearsed modes of operation to prepare programs for member countries’ use of Fund resources (UFR): it assesses problems, designs and negotiates conditionality, and coordinates financial support with other creditors. Staff reports provide background for Board review and approval of financing packages, and for securing wide support from the membership. This process is usually managed in a rapid and consistent manner, which is made possible by tight and centralized control over staff

and its activities. In these respects, the IMF stands out among other international organizations.

14. The Fund’s effectiveness as the “fire fighter” of the global financial system has been particularly noticeable when there is a systemic crisis. In these cases, informal governance practices emerge that allow the Fund to react with speed and flexibility, in situations where other multilateral organizations might well become paralyzed. This informal governance has functioned differently in each crisis, but certain characteristics have been present in most cases. When a crisis is detected, alternative mechanisms for strategy formulation, decision making, and implementation are superimposed over the usual mechanisms. The crisis mechanisms center on a small network of senior government officials—generally from the countries most closely involved (often the G-7 deputies). Fund management and staff work with these officials to formulate strategies and to raise financing or allocate burdens. To facilitate negotiations, discussions and decision making shift out of the Board and into a smaller group of policy makers who are not bound by voting arrangements or formal procedures; their dialogue takes place through conference calls and private meetings where official minutes are rarely kept. Once a tentative agreement is reached, Fund staff work with relevant stakeholders to design the details, and Management brings the proposed package to the Board for review and approval—a process that helps foster a degree of collective ownership over decisions. This system has allowed the IMF to design programs and mobilize large amounts of financing in a fraction of the time this would take to accomplish through formal channels.

15. This informal governance mechanism is not without a downside. Because decision making during crises takes place outside formal channels, it lacks transparency and the ability to ensure ex post accountability for decisions taken. Also, this informal decision-making process leaves much of the Fund’s membership out of the picture until a program is ready for approval.

16. Two other weaknesses have been identified by the evaluation. First, ministerial involvement in

¹⁰Background Documents V.1, V.2, and V.3 contain matrices with detailed findings for each dimension and each governance body, and references to the corresponding source of the evidence.

the Fund's business is weak, except at times of systemic crisis or on policy issues (e.g., HIPC Initiative, on which G-7 countries have taken a particular interest). Key functions that require strong political ownership—e.g., setting the Fund's overarching goals, performing high-level oversight—receive little attention. More often, high-level political guidance has come from outside the Fund's formal governance framework, primarily from the various informal country groupings referred to as the "Gs" (G-7, G-20, G-24). Guidance from these country groupings is intermittent and ad hoc, and risks being viewed as illegitimate.

17. Second, responsibilities are not clearly divided between Management and the Board, or, in some cases, between the Board and the IMFC. Overlaps in some areas, and gaps in others, detract from effectiveness and efficiency and undermine accountability. The IMF's Articles do not clearly differentiate the responsibilities of the Board from those of Management for conducting the business of the Fund, leaving a gray area over what constitutes providing "direction and control" and what would be considered intrusive micromanagement. Also, some Board members resent the role played by the IMFC, especially at the Deputies level, in providing strategic direction.

18. Meanwhile, gaps exist in the provision of "big picture" strategic guidance with the Board being largely reactive (for example, the Board played primarily a review and approval role in the process of formulating the Fund's Medium-Term Strategy in 2006, relying on Management to lay out the design). It also plays a very minor role in setting priorities for the allocation of technical assistance resources.

B. Efficiency

19. The Fund has a relatively lean management structure. The office of the MD comprises eight senior staff, with a budget of about \$7 million (about 0.7 percent of the Fund's net administrative budget). The annual meetings of Governors and the bi-annual meetings of the IMFC are coordinated with other events that have overlapping attendance and agendas—which leads to synergies and reduces costs. The Board is compact relative to those of many UN agencies and some large international organizations,¹¹ and over the past decade it has been able to reduce the amount of time it spends in meetings. On the other hand, the costs of running the Board are somewhat high compared with those of resident

¹¹Intergovernmental organizations with near-universal memberships typically have executive boards of 32–36 directors, compared to the Fund's 24. See Martinez-Diaz (2008).

boards in other inter-governmental organizations (see para 49). Directors are supported by a staff of 240, which represents over 9 percent of total staff.

C. Accountability

20. Accountability is probably the weakest aspect of IMF governance. There are no agreed standards against which to assess the actions of the IMF and no adequate mechanisms for the organization and its governing bodies to be held accountable by the membership or by appropriate stakeholders. Accountability is a common problem among intergovernmental organizations, and is particularly crucial in regard to the Fund, whose actions can have a major impact. The One World Trust, a respected NGO, compared four aspects of accountability across 20 intergovernmental organizations. Overall, the IMF fared slightly below average, scoring relatively better on Transparency and Evaluation than on Participation, and Complaint and Response Mechanisms (One World Trust, 2006, 2007a, and 2007b).

21. As representatives of the Fund's owners, the Board of Governors has overall responsibility for the Fund's direction and performance, as well as for overseeing the Board's performance, to which it has delegated many of its powers. This delegation, however, does not release Governors from their responsibility for the stewardship of the organization. The accountability relationship of the Board to the Board of Governors is implicit in the delegation of powers specified in the Articles of Agreement and the By-Laws. However, there are no standards for what is expected from the Board and the only formal mechanism for assessing its performance is the requirement to report annually to the Board of Governors on the state of the Fund and the international financial system. It would be difficult to assess institutional performance on the basis of this report.¹² In fact, the overlap of responsibilities between the Board and Management on the one hand, and between Board members and their political principals on the other, blurs the lines of accountability and makes it difficult

¹²It would be impractical for the 185-member Board of Governors to assess the performance of the Board or of Management, even if clear standards could be agreed. There is no obvious way to apply rewards or sanctions for performance. The Joint Committee on the Remuneration of Executive Directors and their Alternates, composed of three current or former Governors, recommends salary increases for Directors, based on comparator formulas but without assessing performance. The IMFC is not formally charged with oversight and, in practice, it does not perform this function. Finally, there is no institutionalized process of self-evaluation for the Board, unlike for a growing number of private, public and intergovernmental organizations. For example, the number of U.S. nonprofit organizations with boards that evaluate themselves has grown from 23 percent in 1994 to 43 percent in 2004 (BoardSource, 2004).

to identify a set of outputs and results for which the Board could be held accountable.

22. Another gap concerns the oversight of policy implementation, in spite of the Board reviewing each lending and surveillance report and conducting periodic reviews of policy implementation. For example, guidelines that call for the streamlining of conditionality and guidelines for financial-sector surveillance have yet to be implemented adequately. Also, currently there is no adequate oversight of financial management and conflict of interest issues by the Board or by any other body representative of the membership.

23. This assessment of a weak accountability framework is shared by Board members responding to IEO's survey, 55 percent of whom said that they believe that the existing mechanisms for holding the Board as a whole accountable are "inadequate or nonexistent," while another 25 percent thought that adequate mechanisms are "in place but not used sufficiently." Similar views are held by authorities and senior staff.

24. The MD is accountable to the Board for his job performance, decisions, and personal behavior. This relationship explicitly emanates from the Articles, which specify that the Board selects the MD and may terminate his appointment, as well as placing the MD "under the direction" and "general control" of the Board. While the accountability framework for the MD is better specified than that for the Board, it has been of no greater practical use, since again there are no agreed standards for what is expected from Management, no formal process for evaluating Management's performance, and no rewards or sanctions other than a decision on whether or not to reappoint the MD after five years. In fact, the Board has thus far played only a pro forma role in selecting MDs and renewing their appointments, with the actual decision being made by a subset of member countries' authorities through an opaque process. Not surprisingly, the vast majority of Board members believe the Board is insufficiently involved in holding the MD accountable.¹³

25. Stronger accountability mechanisms are needed to address serious concerns about the Fund's legitimacy. To be sure, poorly designed accountability mechanisms can reduce effectiveness if they make Board members less willing to make difficult and controversial decisions or if they make Fund officials too risk-averse or lock them into box-ticking performance exercises. But better specified responsibilities and clear performance standards and reporting mechanisms are likely to contribute to, rather than

detract from, effectiveness. These issues are further explored in Chapters 4 and 5.

D. Voice

26. This evaluation examined two aspects of Fund governance related to voice: (1) the capacity of members to have their views heard and considered in the institution's decision-making process; and (2) the capacity of other stakeholders, including legislatures and civil society, to have their views heard and considered by the IMF. It found that these two aspects were weak and needed to be strengthened to enhance members' confidence in, and support for, the Fund, which will be important for sustaining the institution's effectiveness over the medium to long term.

27. On the issue of the voice of members, there are concerns about the current structure of the Board. The average size of the 16 multicountry constituencies at the Board is large compared with those in other international organizations.¹⁴ Representing a large number of countries places heavy demands on Directors' time and resources to consult with the authorities on matters affecting them. It may reduce these Directors' ability to participate in policy and institutional discussions, and may even affect the quality of their work on country matters. A larger Board would allow for smaller constituencies and better representation, but would increase costs and could diminish effectiveness. On the other hand, there have been calls to abolish the positions of the five appointed Directors, opening the door to converting all the eight single-country constituencies to multicountry ones.¹⁵

28. Meanwhile, there is evidence of a "chilling effect" that deters Directors and their authorities—especially those from low-income countries—from challenging Management and staff views for fear of negative repercussions. IEO surveys show that one-third of the authorities and 36 percent of Board members believed that they can criticize staff and Management without fear of repercussions "rarely" or "only on some issues." This opinion is most pronounced among authorities and Directors from low-income countries: as many as 56 and 67 percent of them, respectively, felt they can freely criticize staff "rarely" or "only on some issues."

29. On the issue of the voice of external stakeholders, transparency is key to informed participation. Since the 1990s the Fund has made efforts to

¹³Since late 2007, a Board working group has been preparing performance standards for the MD, but none have been issued.

¹⁴The average multicountry constituency at the Fund (and World Bank) has 10.9 countries, but only 5.6, 7.6, and 5.3 at the World Health Organization, Global Environmental Facility, and United Nations Development Program, respectively.

¹⁵McCormick (2008).

become more open to views of non-governmental stakeholders and legislatures. More than half of Board members meet with members of civil society at least on an ad hoc basis, but only 18 percent do so on a regular basis. While 40 percent of Board members publish some reports on their activities, fewer than a quarter appear before their legislatures on a regular or even ad hoc basis.

30. Since 1996, the Fund has significantly liberalized its document disclosure policy, making electronically available to outsiders more information about Fund operations and Board decisions. But its disclosure policies and practices could be strengthened to match best practice among international organizations. Fund archives policy remains restrictive, with significant obstacles to accessing declassi-

fied material remotely. Embargo periods for Board minutes and other documents are excessively long (a view shared by about 40 percent of Board members and staff). There are no transparent and publicly available criteria governing the declassification of confidential and strictly confidential documents; this remains the prerogative of Management. Finally, stakeholders outside the Fund argue that their ability to influence Fund policy is diminished by the fact that policy documents are not made public prior to discussion by the Board.¹⁶

¹⁶See Annex 4: “Transparency: Disclosure and Archive Policies.” According to recent studies, the IMF ranked eighth among 20 international organizations in terms of transparency. Also, see One World Trust (2006) and (2007b).

Findings on Individual Governing Bodies

31. This chapter presents evaluation findings specific to the IMFC, the Board, and Management. For each of these governing bodies, it identifies strengths and weaknesses by answering, inter alia, the following questions: Are the statutory roles of each body clear? Are there overlaps with the roles of other bodies? Are there gaps? Could structures or processes be modified to allow these roles to be discharged more effectively? Are governing bodies and individuals held accountable for their behavior and performance, and for the results of their actions? What are the costs of the governance structure? Do the governing bodies provide stakeholders with sufficient access to express their views?

A. The International Monetary and Financial Committee

32. **Ambiguous status.** Because the IMFC, like its predecessor the Interim Committee, is an advisory body to the Board of Governors, IMFC communiqués carry no legal weight and only constitute advice to the Governors and, indirectly, to the Board. In practice, however, Directors, Management, and staff take the communiqués as guidelines for the Fund’s work program for the following months. This is natural, because the IMFC is composed of the same Governors that appoint or elect the Directors and Management. The ambiguous status of IMFC declarations limits the degree to which the Board and Management can be held accountable for implementing (or not) the IMFC’s initiatives. The incongruence between the IMFC’s formal and actual roles and responsibilities, and the gray zone that its communiqués inhabit, detract from the legitimacy of the Committee and undermine accountability. Similarly, the Development Committee was established to advise the Governors of both the World Bank and the IMF on critical development issues, but in practice it is seen as primarily occupied with the work of the World Bank, and receives scant attention from the Board, Management, and staff of the IMF.

Box 1. The Council: A Ministerial Governance Body

The Second Amendment of the IMF Articles of Agreement provides for the possibility of establishing a decision-making and political body at the minister/governor level, between the Board of Governors and the Board, and with the same number of constituent members as the Board. The Chair of the Council would be selected by its members. In addition to “supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity,” the proposed Council would “review developments in the transfer of real resources to developing countries.” The establishment of the Council was made subject to an 85 percent majority of votes of the Board of Governors, which has not been mustered and therefore the Council has not yet been activated. The provisions provide for votes of each chair to be split, unlike at the Board.

33. **Strengths.** Despite the lack of clarity regarding its role, the IMFC plays a significant part in IMF governance. Its semiannual meetings serve as event-forcing occasions that can bring about compromise and closure on policy issues. The communiqué issued at the end of a Committee meeting is a consensus document, which confers greater legitimacy on initiatives previously developed in country groupings such as the G-7, the G-20, or the G-24, and promotes political ownership of policies developed within the Fund. IEO surveys of key stakeholders suggest general satisfaction with the quality of IMFC communiqués; a large majority of member country authorities and Board members were at least “somewhat satisfied” with the degree to which communiqués reflect the views of IMFC Governors and with the clarity of the guidance they provide.¹⁷

¹⁷Also among staff, a large majority responded that the communiqués at least sometimes provide clear guidance, but about one-quarter said that this was rarely the case, possibly reflecting those issues on which the IMFC could not reach agreement.

34. **Weaknesses and limitations.** The evaluation also found important weaknesses that reduce the value of the IMFC’s contribution to the Fund’s governance. First, the IMFC does not exercise oversight over the Board or Management, a task for which as an advisory body it has no legal standing. This is an important gap in overall governance. Second, IMFC meetings have played a very limited role as a forum for substantive negotiations—natural given its status as an advisory committee that meets for a few hours every six months and to which many Governors come unprepared for negotiations. Third, most observers believe that the link between the IMFC and the meetings of the G-7 and other country groupings adds to the Committee’s effectiveness, but many stakeholders believe that it deters from ownership and accountability. They indicated that a greater sense of ownership and accountability and greater evidence that G-7 countries consider the IMFC pivotal would lead delegations to prepare better for the meetings, thereby enhancing the effectiveness of the IMFC and of the Fund.

35. **Procedural issues.** Interviews with IMFC participants identified a number of procedural shortcomings. First, there is concern that the Committee Chair can disproportionately influence the content of communiqués, and that obstacles (especially, limited command of English) limit the participation of some IMFC Governors (or their representatives) in the drafting. Second, the IMFC lacks an open and transparent process for selecting its Chair. Third, the format of meetings affects their value; IMFC Governors interviewed found the breakfast meetings, which are open only to principals, to provide a valuable platform for high-level, frank, and open exchange of views and, occasionally for substantive negotiations. The luncheon sessions are less well attended by ministers, while plenary sessions are seen by some Governors as often ritualistic and unproductive. In regard to the IMFC deputies’ meetings, views are divided. About half of the authorities value these meetings, but more than 70 percent of current and former Board members see them as adding little value.

36. **Size and costs.** More than half of the authorities surveyed indicated that the current number of Governors on the IMFC adequately balances effectiveness with the need for representation and legitimacy—a view also held by Board members and senior staff. Also, authorities do not see the costs of the IMFC meetings as out of line, particularly because these meetings are organized to coincide with complementary gatherings.

B. Executive Board

37. This section compares the main strengths and weaknesses of the Board. It argues that there is ten-

sion between the Board’s executive and supervisory functions—between partnering with Management in discharging the day-to-day business of the Fund on one hand, and playing an oversight role on behalf of the owners of the institution on the other. It then analyzes the structure and workings of the Board, reviews the skills and experience of Board members and concludes with a discussion of accountability issues.

38. **Strengths and weaknesses.** The Board is an important source of legitimacy for the Fund. Its constituency system provides a degree of representation to all 185 members without the paralysis seen in some international organizations that have universal representation in their boards. The Board reviews and approves virtually all strategies and policies, and plays a limited role in their development. It often serves as a forum to discuss and foster ownership of recommendations endorsed by the IMFC. But the role played by the Board in governance also has a number of weaknesses. First, the Board has provided limited oversight over Management and the Fund overall. Second, while most Directors have clear reporting lines to their authorities, there is no mechanism for the Board as a whole to assess its own performance or receive feedback from the Board of Governors on its performance as a governing body. Third, the share of the administrative budget devoted to the Board appears high compared with that in other international organizations.

39. **An executive or supervisory Board?** From the start, the Board’s mandate for “conducting the business of the Fund” and exercising “general control over Management” has been interpreted as giving the Board an executive role, with significant involvement in the Fund’s day-to-day business. This interpretation is consistent with the term “Executive Board” used by the Articles, and with the requirement that the Board “function in continuous session.” An executive board was probably necessary in the Fund’s early days, when the institution had formal authority over the par value system of exchange rate arrangements and communications between Directors and the authorities in their home countries were limited. This required that Directors enjoy the trust of their authorities and possess a high level of experience and proficiency in macroeconomic analysis. The executive role was also feasible because there were only a dozen Directors.

40. Though formally the Board continues to play the same executive role as in the early days, changes in its mandate and operations, and in the size of the Fund’s membership and staff,¹⁸ now make this very

¹⁸The Fund’s membership has more than quadrupled, from 44 to 185, and the size of the staff has grown more than sevenfold, from 355 people to some 2,600.

difficult. The size of the Board itself has doubled from 12 to 24. By the standards of modern corporate governance, a 24-member board is too large to play an effective executive role.¹⁹ In the private sector, for example, executive boards rarely exceed a dozen directors, and even in the non-profit sector, the trend is toward smaller executive boards.²⁰ Compared with other international organizations of similar size, the IMF has a relatively compact board, but in these organizations, boards perform largely a representational and supervisory role rather than an executive one.²¹ Advances in communications over the last 60 years have also made it less necessary for the Board to play an executive role; authorities in capitals can now provide Directors (and Management directly) with instructions almost in real time, diminishing the need for a Board whose members can act independently of their instructions and allowing the authorities to send less senior representatives.

41. Today's reality calls for the Board to play an effective supervisory role. The Board has only limited involvement in many of the functions that are commonly associated with a supervisory board, notably fiduciary oversight (including financial management, risk management, and preventing misconduct and conflicts of interest), and oversight of human resource and administrative policies. At the same time, previous IEO evaluations and studies prepared for this evaluation suggest that the Board has played only a reactive role in strategy formulation and that it has not been effective in monitoring policy implementation. The Board's involvement in day-to-day operations has deflected its attention from these needed oversight functions and constrained its ability to perform them in an independent manner.

¹⁹Academic work on decision making and group behavior indicates that executive boards, to be effective, should have no more than 10 members, with 12 as the absolute maximum. Once boards get larger than 12, the quality of participation declines, decision making begins to atrophy, and free-rider problems increase. See Carter and Lorsch (2003).

²⁰The Spencer Stuart Board Index, 2006, Spencer Stuart 2006 UK Board Index, and Spencer Stuart Board Index: Italia 2006 note, respectively, that among major U.S. companies (S&P500), the average board size is 10.7; among the U.K.'s top 150 companies, it is 10.8, and among Italian blue chip companies, the average is 10.7 directors. IEO calculated that the average board size of the top 50 Japanese corporations of 2007 was 13. According to BoardSource, the median board size among the nearly 400 U.S. non-profits participating in a recent survey declined from 17 members in 1994 to 15 in 2004.

²¹Martinez-Diaz (2008) compared the governance of the IMF with 11 other international organizations, including 5 with a large membership. Among these, the IMF, along with the World Bank, has the smallest board in absolute numbers, as well as the lowest ratio of board size to membership size.

Structure and workings of the Board

42. **Board size and composition.** Changes in Board size give rise to trade-offs between executive effectiveness, on the one hand, and representation and legitimacy on the other. The dilemmas posed by this trade-off are not easily resolved, and there is no consensus among Board members on the appropriate size. Half thought that the Board was too large, while the other half thought it was either the right size or too small. Among senior staff, a large majority thinks the Board is too large. More than 60 percent of the authorities surveyed think that the current Board size adequately balances effectiveness and representation, but about one-quarter think it should be larger.

43. **Board committees.** In most private and public corporations, as well as in other intergovernmental organizations, boards establish a system of committees that allow them to operate more effectively and efficiently. Committees provide a forum for Directors to brainstorm over policy issues independently of Management, to discuss technical issues in greater detail than would be possible at the full Board, and to provide regular oversight over new initiatives and agreed policies. Currently, there are nine Board standing committees at the IMF.²² These committees encourage less formal discussions among members than do meetings of the full Board, but several of them are insufficiently independent of Management to provide a forum for open discussion among Board members. There is also a reluctance to use committees to streamline Board discussions by identifying areas of consensus and finding compromises in areas of disagreement (even though decision-making authority would still remain with the full Board, as specified in the Fund's Rules and Regulations). As a result, committee discussions are often duplicated at the Board level; thus they do not contribute to Board effectiveness and may even be detrimental to efficiency.

44. **Time allocation and value added.** Board members were not fully satisfied with how the Board allocates its time. About half of the nearly 400 hours of annual boardroom time are dedicated to country items (more on Article IV consultations than on pro-

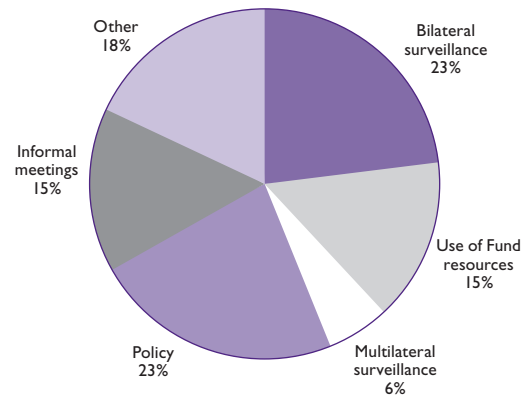
²²The Budget Committee and the Pension Committee are chaired by Management. The seven other standing committees (Agenda and Procedures, Annual Report, Evaluation, Executive Board Administrative Matters, Interpretation, Liaison with the World Bank and Other International Organizations, and Ethics) are chaired by Directors who are selected by Management in consultation with the Dean of the Board. Some of these committees meet only infrequently. The Committee on Interpretation has not met since 1958. There are currently no Board committees with responsibility for financial management oversight, administrative policies, or human resource policies—areas covered by board committees in other international organizations.

gram discussions, especially in recent years). Another 20–25 percent is devoted to policy items, and the rest is spread over multilateral surveillance, informal meetings, and discussions at Board committees (Figure 2). More than three-quarters of Board members believe the Board is insufficiently involved in assessing the performance of Management and in holding Management accountable for its performance. About half of Board members believe that the Board is insufficiently involved in multilateral surveillance and in setting technical assistance priorities—issues to which the Board dedicates very little time. While 70 percent of Board members think that the Board is adequately involved in Article IV consultations, only 20 percent of Board members (and 15 percent of staff) think that the Board contributes “significant value added” to these consultations—a proportion similar to those who think that the Board contributes “no or negative value added” (a view held by 40 percent of staff). Perhaps this lies behind the finding in Table 1 that, on average, only four Directors attend Article IV Consultation meetings (only three when combined with use of Fund resources (UFR)). These numbers suggest that a reconsideration of the Article IV surveillance process might be in order, or at least that the Board should explore alternative ways to provide its input.

45. Board members reported that they have only limited control over the allocation of time, and many complained about the uneven distribution of the workload over the year. While Section C of the Rules and Regulations of the Fund specifies that the Chair shall call a meeting at the request of any Director and that in preparing the agenda of each meeting the MD shall include any item requested by a Director, many Board members indicated that this is not easy to implement and that the agenda is set by Management and administered by the Secretary’s Department. A number of Directors were generally concerned that the Secretary, like the Legal Counsel, who is appointed by the MD and acts as a department director, is not sufficiently independent in his advice to the Board.

46. **Grays, Board attendance, and quality of discussions.** The total amount of Board meeting time has fallen since 1999, from about 600 hours to about 400 hours a year, reflecting a reduction, on average, from 2.6 hours to 1.6 hours spent on each item (on country items the reduction was from 1.7 to one hour). A key factor behind this fall is the proliferation of “grays” (written statements that are submitted by Directors in advance of meetings and often used in place of oral statements). During this period, the number of grays has grown by 400 percent to more than 4,000 a year. Most chairs issue a gray for most country discussions. Board members see some benefits as well as shortcomings to the issuance of grays. Grays allow authori-

Figure 2. Use of IMF Boardroom Time, 2007



Source: Based on data from the Secretary’s Department.

ties to provide more direct input and make it easier for Management to reflect Directors’ views in the Concluding Statement or Summing Up, especially when grays are issued sufficiently far in advance of the Board meeting. On the other hand, many Directors complained during interviews that grays are too long, that they often reproduce the views expressed in the corresponding staff report or in the grays of other chairs, and that they tend to discuss technical issues that are better handled by the staff, rather than issues of compliance with Fund policy and consistency across countries. Still, most Board members believed that the increase in the number of grays has not diminished the quality of decisions.

47. Grays were originally introduced to stimulate livelier Board meetings, but in fact they have had the opposite effect. Grays may also have led to poorer attendance at Board meetings by Directors, who are now more likely to send junior staff to attend because fewer discussions are expected on top of the submitted statements. Typically, only four Directors and four Alternates attended discussions of country items in 2006 (Article IV and UFR), while the other 16 chairs were filled by advisors and senior advisors (Table 1). Attendance of Directors and Alternates was much higher for meetings on policy issues, administrative matters, and multilateral surveillance. These statistics do not necessarily mean that Directors consider Board meetings unimportant. In fact, sometimes the advisors and senior advisors attending may come from countries with greater interest in the issues being considered, or their skills or experience may be more relevant for the issue at hand than those of the Director.

Table 1. Average Attendance at Board Meetings, 2006

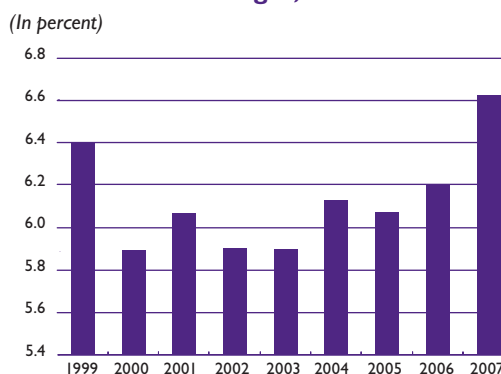
Type of Issue Discussed	Rank of Officials in Attendance		
	Executive Directors	Alternates	Other Staff from ED Office
Admin/finance issues	9	7	8
Policy issues	9	6	9
Multilateral surveillance	7	7	10
Bilateral surveillance (Article IV)	4	5	15
Use of Fund resources/HIPC	4	3	17
Combined UFR and Article IV	3	4	17

Source: Based on Executive Board Minutes for 2006.

48. **Summings Up.** “Summings Up” (SUs) summarize the views and decisions of the Board, in particular for Article IV and most policy discussions. These summaries—which are prepared by the Chair of the Board with assistance from the Secretary—communicate guidance and directives from the Board to Management and staff. SUs also provide the basis for public information notices—a major vehicle through which the Fund communicates its views to the public. More than four-fifths of Board members and almost three-quarters of senior staff consider that SUs are “sometimes” or “often” vague and/or contradictory. A review of a number of SUs from Article IV and policy discussions found that it is sometimes difficult to distinguish between decisions and consensus views, and that minority views are not covered consistently. There is also a lack of clarity with respect to the code words used to describe the degree of support for a position (e.g., “several,” “many,” “most”).

49. **Board costs.** In 2007, the total Board budget was \$59 million (\$73 million when including the budget for the Secretary’s Department). Between 1998 and 2006, the costs of running the Board oscillated between 5.9 and 6.4 percent of the IMF net administrative budget (Figure 3). During this period there was an increase in the staffing of Directors’ offices. Though comparisons across institutions are difficult due to the differences in the scope of operations, these figures are somewhat high compared to those in other international organizations with resident boards, though not significantly out of line.²³ At the World Bank the equivalent statistic was 3 percent; at the IADB, 4 percent; at the EBRD, about 5 percent; and at the AsDB, 6.5 percent.

²³Every third year, the Annual Meetings of the Fund and World Bank are held outside the United States, which accounts for the higher costs in 1998, 2001, 2004, and 2007.

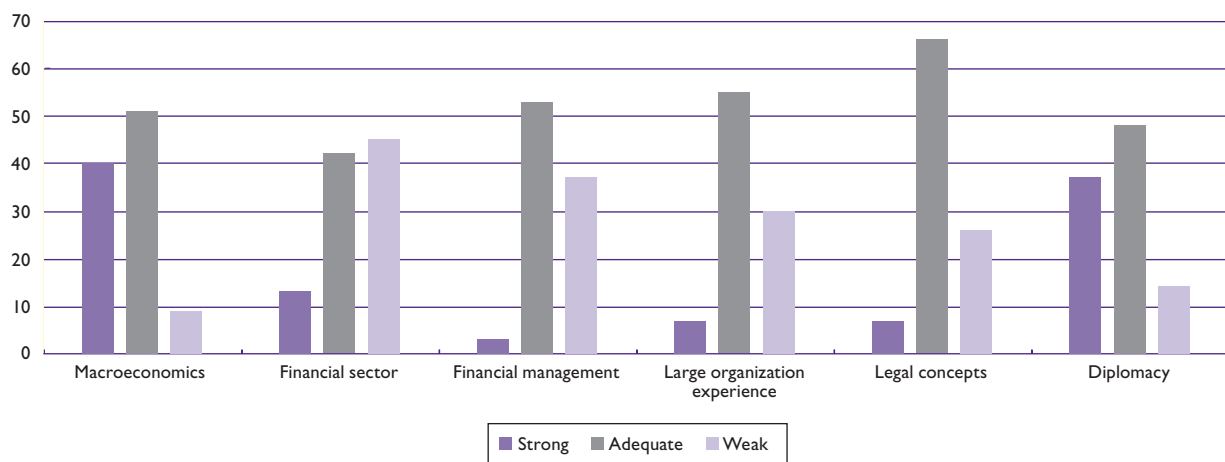
Figure 3. Budget of Executive Directors’ Offices as Percent of IMF Net Administrative Budget, 1999–2007

Source: Office of Budget and Planning and IEO staff calculations.

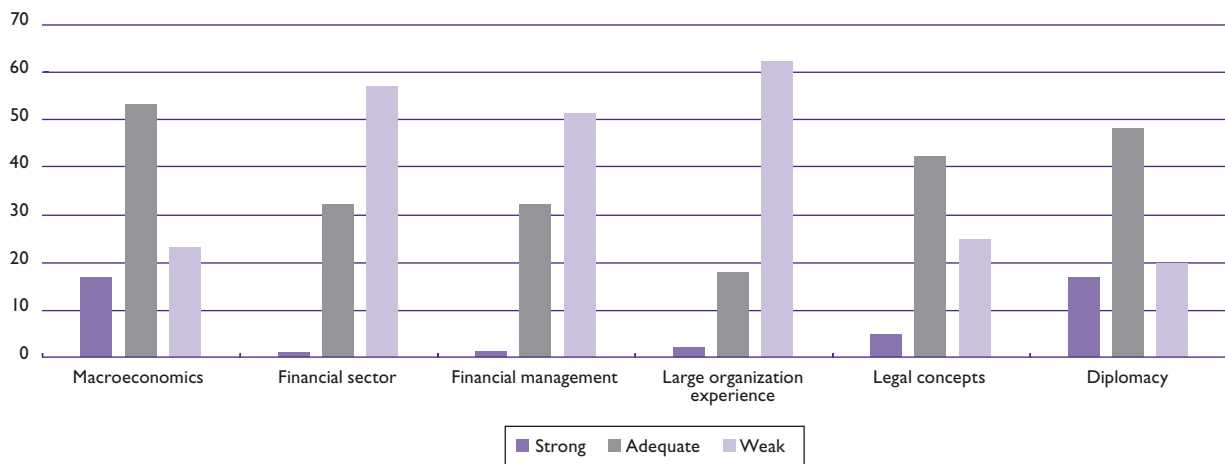
50. **Board members’ capacity and accountability.** The Board’s capacity to be effective depends in part on the skills and experience of Directors and their staff, and the incentives they face. The following paragraphs look at Directors’ skills, experience, the degree of turnover at the Board, and the accountability framework within which Directors work.

51. **Board member qualifications and skills.** There are no terms of reference for the Board as a whole, nor standard job descriptions for Directors, Alternates, or their professional staff. Standardized job descriptions would provide authorities with guidance for selecting candidates. Some 90 percent of the authorities who were surveyed ranked knowledge of macroeconomics and of financial sector issues as characteristics they consider “essential” in a Director, and another 75 percent considered negotiation and diplomatic skills to be “essential.” Board members see themselves as having these skills—a view shared by the staff (Figures 4 and 5). However, the evaluation found that both Board members and staff consider knowledge of financial sector issues as one of the Board’s weakest skills, even though authorities consider this an essential skill Directors should possess. These perceptions are confirmed by a case study of the Board’s performance in integrating financial-sector and macroeconomic surveillance (Bossone, 2008c) which found that partly because of insufficient financial-sector expertise, the Board found it hard to integrate financial-sector issues adequately into discussions of macroeconomic conditions.

52. Similar problems exist below the Director level. Most Board constituencies do not have clear, agreed-upon job descriptions or transparent merit-based processes for selecting Alternates and other staff members. Jobs in Directors’ offices are sometimes seen as a reward for prior services, rather than as an important and demanding challenge. In fact,

Figure 4. Executive Directors' Perceptions of Executive Board Skills*(In percent)*

Source: IEO Survey of Executive Board, Question 2, Background Document I.

Figure 5. IMF Staff Perceptions of Executive Board Skills*(In percent)*

Source: IEO Survey of Senior IMF Staff, Question 2, Background Document I.

most Directors play little or no role in selecting their own staff, and only 15 percent responded that they have “wide latitude” in selecting their senior advisors and advisors. In interviews, some Directors expressed frustration that some of their staff were not sufficiently qualified. To deal with this problem, some constituencies have adopted job descriptions and more transparent processes to select Board members, as well as rules on the operations of the Directors’ office (see Annex 5).

53. Seniority and background. The level of seniority and institutional backgrounds of Executive Directors seems to have changed little in the past decade. The average years of experience have remained constant and in line with the figure in other international organizations.²⁴ The background of

²⁴Experience was proxied by the average age of directors, which stands at 53 years. The average age of executive directors at the World Bank is 53, at the AsDB it is 54, and at the EBRD it is 55 years.

Directors has also not changed appreciably; about 70 percent of Directors come from central banks, finance ministries, and treasuries (Table 2).

Table 2. Backgrounds of IMF Executive Directors, Selected Years

Occupation of Executive Directors Immediately Prior to IMF Service	1996	2001	2006
Ministry of finance/treasury	6	11	7
Central bank	8	6	8
Other government	5	2	4
IMF staff	3	3	2
Academia	0	1	1
Private sector	0	0	1
World Bank and other international organizations	2	1	1

Source: Based on data from Secretary's Department.

54. **Turnover.** Elected Directors are appointed for two-year renewable terms, while appointed directors serve until recalled by their capitals. During the 1990–2007 period, the median term in office of Directors (elected and appointed) was 23 months, rising to 40 months if prior experience as Alternates is included. In interviews, Board members reported that it takes six months to a year for an incoming Director to become fully effective in his or her position. Up to a point, longer tenures allow Directors to perform their jobs with greater independence from Management, but some Board members observed that very long tenures can lead Directors to identify too closely with the views of staff and Management. Compared to its peer international organizations, the IMF has some of the shortest terms of office for Directors.²⁵ The Fund's median also appears short compared to the private sector where experts recommend two terms of three years each for board directors.²⁶ Both current and previous Board members are split on whether there should be more or less turnover—46 percent think the degree of turnover on the Board is “about right” while 43 percent think it is excessive. Among staff, two-thirds believe that the turnover is “about right” or “too little.”

²⁵Directors are elected for two years in the World Bank and the Asian Development Bank, for three-year terms at the AfDB, IADB, EBRD, WHO, GEF, BIS, and UNDP; at the EIB, they serve five-year terms. The average actual term of service of an OECD ambassador is 3.5 years.

²⁶Higgs (2003, p. 5); *Spencer Stuart 2006 UK Board Index* found that in top U.K. firms the average length of service for non-executive directors was 3.8 years.

55. **Accountability of Directors.** Individual Directors are accountable for their interventions and votes to the authorities in their constituencies. Appointed Directors can be recalled at will by their capitals. Directors who are elected by a single-country constituency face similar scrutiny from their authorities, even though, at least in theory, they cannot be removed between elections. Directors elected by multi-country constituencies face different scrutiny and incentives. Most constituencies have rotation agreements that set out whether their Directors can be reelected or whether they can only serve a single two-year term—which eliminates reelection as an incentive. In both cases, Directors need to maneuver within the sometimes-conflicting interests of their authorities. In any case, for most Directors, the impact on their future careers in their home countries provide an incentive to listen to their authorities' guidance. Board members are subject to their own Code of Conduct, which is more ambiguous than the Code for staff—referring to what members “should” do, when the staff Code asserts what staff “must” do. Currently, there is no specified mechanism for the Board Ethics Committee to apply this Code.

56. More than half of Board members reported that they occasionally face a conflict between their role as representatives of their authorities and their role in upholding the Fund's institutional interests. Directors explained in follow-up interviews that this conflict arises mostly with regard to administrative or minor policy issues. Nonetheless, the conflict raises the question of whether and how individual Directors can be held accountable as officers of the Fund. Creating a mechanism to serve this purpose would not be simple. First, while in practice all Directors clearly understand their representational role, their status as officers of the Fund is less clear.²⁷ Second, Directors could not be held equally accountable for the consequences of their voting, because votes are weighted by the quotas of the corresponding countries—putting different degrees of responsibility on different Directors.

C. Management: Office of the Managing Director

57. A centralized management structure with strong connections to senior policy makers in the major economies has always been one of the strongest aspects of Fund governance. Managing Directors and most of their deputies have joined the Fund from senior positions in their respective countries,

²⁷It has been argued that this status derives from aspects of their working relationship (e.g., they draw their salary from the IMF, which is also the source of their immunities).

bringing useful experience and high-level connections that have been a source of strength for the organization, and have generally provided strong leadership to the Fund's disciplined and skilled staff. Overall, Management has played a key role in ensuring the Fund's effectiveness. Yet there are no formal mechanisms to hold Management accountable for its performance nor that of the Fund. The lack of a clear accountability framework for Management may have contributed to the sense that the Fund overall is not being held accountable and to the corresponding erosion in support and legitimacy.

58. **Management selection.** The first issue commonly raised when looking at Fund Management is the lack of transparency in the selection of the MD. This position continues to be reserved for a European, even though there has been greater openness and competition in the past few selections. The formal selection process by the Board is detached from the substantive decision making processes, which take place elsewhere in direct discussions among European and other G-7 country governments. The convention that candidates are proposed by the governments of their countries of origin has contributed to "deal making"—trading off one international appointment against another. This has politicized the selection process thus undermining legitimacy, even if the person eventually selected is actually the best candidate.²⁸ In fact, the Fund lags behind other international organizations in the transparency of management selection.

59. The FDMD position has traditionally been reserved for a U.S. citizen, and at least one DMD position is believed to be reserved for a certain region or nationality. Again, this has detracted from the legitimacy of these appointments. The current system limits the ability of the MD to select his deputies to ensure a cohesive Management team and a good fit with the tasks that he would like to delegate.

60. **Management workflow.** The MD has two roles—as Chair of the Board and chief of the operating staff. Because no reporting mechanisms are in place, each MD has been left to decide how to allocate his time among each of these functions and what to delegate to his deputies. Some MDs have spent significantly more time chairing and consulting with the Board; others have devoted much energy to managing the organization; while others have chosen to travel to capitals to serve actively as the public face of the Fund. This has led from time

to time to complaints from Directors about neglecting the Board's work. At the same time, in several interviews, authorities in capitals indicated that they would appreciate more direct interaction with Management, and particular with the MD—which may conflict with greater Board attendance.

61. The allocation of country and functional responsibilities among DMDs appears arbitrary from an institutional standpoint. This has led to confusion among senior staff about Management's views affecting countries that face similar issues globally or in the same region, and sometimes to a lack of consistency in the Fund's position. It also affects accountability, as there is no DMD who takes responsibility for the overall views of the Fund on a particular region. Perhaps more important, because at times there was poor coordination within the OMD, interviews revealed that Departments would wait till a particular deputy would be out of the office to send documents for clearance. Also, documents would sit for long periods of time without response or decision.

62. **Management accountability.** The framework for holding Management accountable is inadequate. In principle, the Articles' provision that the Managing Director acts under the "general control" of the Board provides a clear line of accountability. In practice, however, the Board does not hold Management accountable, for several reasons. There is no formal process through which the Board reviews the performance of the MD. Even if such a process were in place, there are no standards or benchmarks to assess performance, and the Board has no way of rewarding or sanctioning the MD. As mentioned above, the Board only formally validates the MD selection, and the circumstances that would call for his removal and the mechanism to effect it are not specified. These features stand in contrast to best practice in the private and non-profit sectors, where CEO evaluation is an important responsibility of boards.²⁹ Board members agree strongly with this diagnosis: an overwhelming 80 percent of Board members surveyed think the Board is "insufficiently involved" in assessing Management's performance, and three-quarters think the Board is insufficiently involved in holding Management accountable for its performance.

63. **Handling misconduct and conflicts of interest.** The current MD is subject to the staff Code of Conduct under the terms of his letter of appointment,

²⁸Within the United Nations system, the Secretary-General has put in place new, more transparent, procedures for selecting heads of agencies such as the United Nations Development Program. The Organization for Economic Cooperation and Development and the World Trade Organization have also adopted new, more transparent, procedures. See Peretz (2007).

²⁹According to the Spencer Stuart Board Index (2006), among S&P500 companies, for example, 96 percent have a formal process to evaluate the CEO's performance and do so on an annual basis. CEO performance evaluation is no longer just the responsibility of a specialized committee—it is fast becoming a responsibility involving the full board. The comparable number for non-profit executive boards in the United States is 80 percent (BoardSource, 2004, p. 9).

but this is not specified in the staff Code. Moreover, it is not clear who would be in a position to apply this Code to the MD, given that those responsible for its application report to the MD. As members of staff, the FDMD and DMDs, on the other hand, are subject to the staff Code of Conduct. The Fund's governance framework is not well designed to identify actual and potential conflicts of interest or ethical problems of the MD. There is no "whistleblower" protection for persons who report misconduct, and, in particular,

there is no mechanism for complaints and concerns about Executive Directors, the MD, and other senior officers that guarantees the confidentiality of the source. While the Board is, at least implicitly, responsible for addressing alleged misconduct by the MD, there are no procedures that explain how to carry out this responsibility. Also, there are no restrictions on post-Fund employment for the MD, a practice common for high-level officials in governments, central banks and financial sector companies.

Towards a More Effective, Accountable, and Representative IMF: Conclusions and Recommendations

64. The IMF is at an important juncture, with its legitimacy and relevance being questioned. The causes and solutions to this challenge are multifaceted. Much attention has recently been focused on quotas and voting power. But broader governance reform also holds the potential to contribute to strengthened legitimacy and relevance. The Fund's structures, rules, and practices need to be better aligned with the needs of its current membership and mandate, and the challenges that it faces in a globalized economy. For the IMF's governance structure, as a whole, to function effectively, each governance body must play its part. After presenting the main conclusions and recommendations, this chapter proposes detailed measures specific to the IMFC, the Board, and Management.

65. The broad conclusions and recommendations are:

- First, to strengthen the IMF's effectiveness and to facilitate accountability, the roles and responsibilities of each of its governance bodies need to be clarified with a view to minimizing overlaps and addressing possible gaps. There is a lack of clarity on the roles and responsibilities of the IMFC, as an advisory body that lacks a mandate for setting strategic directions but whose communiqués in practice shape the Fund's work programs. There is also overlap and a lack of clarity on the respective roles of the Board and Management. The Board reviews and approves almost every decision by Management. This close involvement in decision making constrains the Board's ability to provide effective oversight over Management. This constitutes a significant gap in the Fund's governance.
- Second, the Fund needs more active and systematic ministerial-level involvement in setting broad strategic goals and in overseeing performance, in order to strengthen its legitimacy and allow it more effectively to modify its role and mandate as new challenges arise.
- Third, the Board's effectiveness is hindered by its focusing too much on executive rather

than supervisory functions. The Board should be reoriented towards a supervisory role, playing a more active part in formulating strategy, monitoring policy implementation to ensure timely corrective actions, and exercising effective oversight over Management. To this end, the Board would need to change its working practices, shifting away from executive, day-to-day operational activities, including through more delegation to committees and possibly to Management.

- Fourth, a framework needs to be put in place to ensure that Management is held accountable for its performance.

A. IMFC and the Development Committee

66. The findings of the evaluation suggest the need to establish a ministerial-level governing body, with a formal role within the IMF structure. This could be achieved by activating the ministerial-level Council that is envisaged in the Articles of Agreement. The Council would be a formal decision-making body—rather than, like the IMFC, an advisory one—so its pronouncements would have legal status. Its responsibilities would include setting the overarching strategic goals of the Fund; making decisions that require support at the highest political levels, such as the selection of the Managing Director; and it could legitimately exercise oversight over the institution, including the Board. Members of this body (the IMFC/Council) would likely be more engaged in the business of the Fund than is the currently the case with the members of the IMFC, since they would formally share the responsibility for the outcome of their decisions. As a formal governing body, the IMFC/Council could legitimately exercise oversight responsibilities. The provisions for voting in the Council allow for votes to be split amongst countries—unlike the case for the Board. This has the potential to contribute to an enhancement of voice as all member countries would play a more active role in major decisions.

67. A new IMFC/Council should build on the IMFC's strengths and address some of its weaknesses. To this end it is recommended that:

- The ministerial body should be given an explicit mandate to exercise oversight over the IMF on behalf of the Board of Governors;
- The process for selecting the Chair of the IMFC/Council should be transparent and inclusive of the full membership, giving both developed and developing countries an opportunity to lead the IMFC/Council;
- A maximum term of five years should be set for the position of IMFC/Council Chair. This length should be long enough for the chairperson to gain enough experience to do an effective job;
- IMFC/Council meetings should take place twice a year, and Governors should be more actively involved in setting the agenda than is the case for the IMFC;
- The plenary sessions as they currently operate at the IMFC should be significantly modified to allow for more substantive discussion, perhaps by restricting participation in some sessions to Governors;
- The IMFC/Council's decision-making system should strive for consensus, as is the case in the IMFC. Voting should take place only in extraordinary circumstances (in accordance with the system outlined in the Articles); and decisions on important issues should be subject to special majorities.

68. **Development Committee.** The Board of Governors should also clarify the mandates and responsibilities of the Development Committee. The Development Committee's jurisdiction should be restricted to the work of the World Bank, allowing the Committee to become more effective at what actually is already its main focus. The IMFC Chair and the MD would still participate as observers in Development Committee meetings (as is the case with the Chair of the Development Committee and the President of the World Bank in the IMFC meetings) and would thus be able to intervene when issues of common interest arise.

B. Executive Board

69. The Board should actively address the main gaps identified in the governance of the Fund, particularly weak oversight over Management and ineffective monitoring of the implementation of agreed policies. As a key element for accomplishing this, the Board should shift the balance of its activities towards a **more supervisory role**, mainly by providing oversight over Management, and towards its

representational roles in contributing to strategy formulation and affording a more equal voice to all Fund members. This shift would clarify the respective roles of the Board and Management, and hence lead to an easier relationship and less concern about overlapping responsibilities. The recommendations below would also enhance the Board's effectiveness and efficiency, as well as promoting transparency. The By-Laws should be amended to include a statement clarifying the Board's role as a supervisory and oversight body and to outline specific areas of Board responsibility, as well as updated.

70. The Board should introduce an **accountability framework for Management**. Work is under way in this regard, and will need to provide clear proposals on performance criteria, on the processes to be used, and on how assessments are to be translated into incentives. The criteria should focus on Management's conduct of the ordinary business of the Fund (including the chairmanship of the Board; consultations with authorities, Directors, and stakeholders; budget execution and financial management; and personnel and other administrative and managerial matters) and on the quality and outcomes of the Fund's activities. To be effective, the evaluation of Management might need to be delegated to a Board committee that would canvass the views of all Directors, and that would inform the whole Board of its assessment once completed. The assessment may need to be confidential to avoid undermining the credibility of the MD vis-à-vis the membership at large.

71. The Board should give greater emphasis and develop more effective processes to provide **oversight over the implementation** of agreed policies and strategies, with particular focus on ensuring that corrective action is taken whenever needed. The results should be part of the feedback given to Management as part of its performance review.

72. To be effective in these oversight tasks, the Board would need to **reduce its direct involvement in day-to-day operations**. While the Board would remain partly an executive body, it should be more selective in its interventions, focusing on systemic issues and delegating to committees—and perhaps to Management—decisions over issues that have little policy impact and that fall within precedent and practice. In particular, the Board should reconsider the modalities for its involvement in the Article IV surveillance process, which takes a significant portion of its time but is currently seen as adding little value. Consideration should be given to allowing Management responsibility over certain types of non-systemic country issues, such as approval of program reviews and certain Article IV consultations. To be able to prioritize its activities, the Board would need to play a more active role in setting its own agenda. This would require a more active and systematic role

Box 2. Resident or Non-Resident Board?

The evaluation examined and rejected the idea, raised by some observers, of a non-resident Board. Proponents of a non-resident Board point to the possibility of appointing high-level officials as Directors who would be better positioned to provide strategic direction, and who would be more distant from day-to-day operations and therefore would be better able to provide effective oversight. They also point to potentially lower costs, as costs would be shifted to the corresponding authorities. The evaluation team examined the experience of other intergovernmental organizations with non-resident boards and interviewed authorities from several member countries. Experience in

other organizations indicates that after a few meetings, most senior officials send junior staff to meetings in their place. Non-resident Directors are usually less able to contribute to strategic discussions and oversight activities because they are less knowledgeable, as their board positions are only a part-time component of their jobs. Perhaps more troubling, interviewees suggested that some authorities may try to regain a presence on the ground by interfering in the appointment of staff, as seems to have been the experience in other organizations. Finally, a non-resident board could be seen as unfairly advantaging the host country in terms of access and interaction with Management and staff.

for committee chairs and some form of reporting lines from the Board Secretary to the Board.

73. Structure and workings of the Board. The Board should **meet less frequently**. A refocused Board could perhaps meet for one week a month, allowing more time for Board members to consult with their authorities and to do the background work needed to have greater impact during meetings. While the Board should remain a resident Board, this arrangement could enable some chairs to have non-resident Directors, perhaps encouraging the appointment of more senior Directors.

74. Selection and terms of service of Directors. **All Director positions should be elected**, replacing the five appointed Directors, who represent the five largest shareholders. Eliminating these five positions may open the door for many if not all eight single-country constituencies to accept other countries. This would reduce the burden of representation of large numbers of countries in some of the constituencies, and may therefore improve voice and legitimacy.

75. To help ensure the effectiveness of Board members, the Board should develop and issue generic **job descriptions** for Directors, Alternates, senior advisors, and advisors. Directors should select advisors and senior advisors, possibly from a short-list provided by the authorities of the country(ies) eligible to fill the position according to constituency agreements. Directors should provide staff in their office an **annual performance review**, which should be shared with the authorities in their countries of origin.

76. Directors' **terms of service should be increased** from two to three years (either formally or informally). This would enhance institutional knowledge, continuity, and Board effectiveness. Induction and training programs for Board members should be strengthened, to minimize the period that it takes them to become effective when they first join.

77. Board committees. The Board's **committee structure should be strengthened**, including

through the creation of a human resources policy committee and an audit committee. All committees should be chaired by an Executive Director, rather than by Management, to enable them to play a more independent and active role in oversight. Clear guidelines should be put in place for selecting committee members and chairs, keeping in mind that continuity of committee membership is important for their effectiveness. Committees should endeavor to put forward recommendations that can be accepted by the full Board on a lapse-of-time basis. The Board should undertake an evaluation of committee (and Chair) performances on an annual basis.

78. Independent advice. It is critical for the Board to receive independent advice on legal matters from the Fund's General Counsel and on Fund procedures from the Secretary of the Board. To this end, the Board should play a formal role in the selection, performance assessments, and dismissal of these officials. In any case, the Board and its committees should have resources available to hire outside independent expertise, such as on economic, financial, and legal issues. In particular, it is recommended that a Board Audit Committee include outside experts with qualifications similar to those of the members of the existing External Audit Committee.

79. Self-evaluation. The Board should put in place a regular process of self-evaluation, as part of which it would seek the feedback of authorities, Management, and staff. This should be a learning process, to identify strengths and weaknesses in the performance of the Board as a whole, rather than passing judgment on the performance of individual Directors. The self-assessment process should be facilitated by a specialized external consultant, as is the case in other international organizations and corporate boards. Results of the self-evaluation process would be kept confidential, shared only among Board members and with the Chair of the IMFC/Council.

80. **Summings Up.** Board effectiveness depends on the quality of the SU of its meetings. To improve the clarity and transparency of these summaries, it is recommended that they state more clearly what constitutes a formal decision or the views of the Board, as opposed to the views of groups of Directors. At the same time, minority viewpoints should be reflected more consistently. The code words used to describe the extent of support for a position among Directors should be clarified and made public. These changes would provide greater clarity to staff and Management on Fund guidance and promote accountability. Finally, Board members could facilitate the preparation of effective SUs through more focused interventions at meetings and by ensuring that grays are circulated at least 48 hours in advance of meetings.

81. **Ethical oversight.** To strengthen the system of ethical oversight, the Board should make the language in the Code of Conduct binding, and establish a centralized mechanism to receive anonymous complaints and concerns about misconduct by its members. Whistle-blower protections should be put in place to protect from retaliation those who raise these complaints. Ethics Committee members should receive training on their responsibilities and on how to conduct effective investigations of alleged misconduct.

82. **Transparency.** Though the Fund has made progress towards greater transparency, several measures should still be taken to bring its practices more into line with best practices in international organizations. The standard length of time before Board documents are made publicly available should be set at two years, with an explicit decision required for longer periods. Current criteria to classify documents as “strictly confidential” and “secret” should be reviewed and made public. Also, criteria should be made public for the declassification of “strictly confidential” and “secret” documents. Greater use should be made of the internet to facilitate access to archival material.

C. Management

83. **Accountability framework.** This evaluation identifies an accountability gap as the main governance weakness with respect to Management. To address this gap, it recommends establishing a clear accountability framework for the MD, as described above (paragraph 70).

84. **MD selection process.** The selection process for the Managing Director should be reformed, taking into account the principles set out in the 2001 Draft Joint Report of the Bank and Fund Working Groups to Review the Process for Selection of the President and Managing Director. Candidates’ qualifications and likely effectiveness should be the main criteria used in the selection, and the competition should be open to candidates of all nationalities.

85. **DMD selection process and responsibilities.** There should be an open selection process for the FDMD and DMD positions, based on clearly specified criteria. While diversity should be one of the elements in the selection, these positions should not be reserved for any particular nationality. Board members and HRD could be part of shortlisting committees, but the MD should have the final say, to ensure a cohesive management team. Effectiveness and accountability would be further improved through a more coherent assignment of regional and functional responsibilities among DMDs. The MD should introduce a formal evaluation process for his deputies.

86. **Code of Conduct and “cooling-off” period.** The staff Code of Conduct should be revised to make its provisions explicitly binding on the MD, while specifying what mechanism would be used to apply this Code in an independent and credible manner. Upon leaving the IMF, the MD and DMDs should be subject to explicit cooling-off periods before they may take private sector jobs related to Fund activities.

IMF Governance: Outline of Current Structures and Practices

This annex provides a description of the IMF's governance arrangements. The institution's formal governance structure and practices are set out in its Articles of Agreement and in its By-Laws, Rules and Regulations.³⁰ This annex also makes reference to informal bodies that do not appear in the Articles, but which nevertheless play an important role in the Fund's governance.

Board of Governors. The Board of Governors is the Fund's highest governing body, which is composed of one Governor and one Alternate for each of the Fund's 185 member states. The Governors, who are typically finance ministers or central bank governors appointed by their governments, meet annually and select a chairman from within their ranks. The Board of Governors has delegated most of its powers to the Board.³¹ However, this delegation does not imply that Governors have abdicated their overall responsibility for stewardship of the organization.

International Monetary and Financial Committee. The IMFC is composed of 24 Governors; its structure mirrors the constituencies of the Board. Like the Interim Committee, which it replaced in 1999, the IMFC is charged with advising the Board of Governors on matters related to the management of the international monetary and financial system.³² The IMFC meets twice a year and issues a communiqué at the end of its meetings. There is no formal voting at the IMFC, as the Committee is only an advisory

forum and operates by consensus. The **Development Committee** was established by resolution of the Board of Governors to advise the Governors of both the World Bank and the IMF on critical development issues and on the financial resources required to promote economic development in developing countries.³³ In practice, however, Governors and the IMF Board, Management, and staff view the Development Committee as primarily occupied with the work of the Bank.

Executive Board. The Board is responsible for "conducting the business of the Fund" in accordance with the powers delegated to it by the Board of Governors.³⁴ It is composed of 24 Directors, 5 of whom are appointed by the IMF members having the largest quotas, and 19 of whom are elected by the other members organized in constituencies.³⁵ Appointed Directors serve at the discretion of their governments, while elected Directors serve renewable two-year terms. In addition to the Directors, the Board has a staff of over 240, which includes Alternate Directors, senior advisors, advisors, and administrative staff, many of whom informally represent their countries. The Board meets "in continuous session," which in practice means about three times a week. Its responsibilities include setting strategy and monitoring strategy implementation, conducting bilateral surveillance (i.e., Article IV consultations) and surveillance of the international monetary system as a whole, approving the use of Fund resources by members, appointing the MD, providing institutional oversight, and setting administrative policy.

Voting power in the Board is determined by members' quotas, which range from almost 17 percent for the United States to less than 1.5 percent collectively

³⁰In particular, Article XII. A more detailed description of the Fund's governance arrangements can be found in Mountford (2008a). Mountford (2008b) discusses the historical evolution of the Fund's governance. Abstracts of these and the other background papers prepared for this evaluation are in Annex 2; the papers themselves are posted on the IEO website at www.ieo-imf.org.

³¹Governors have retained the power to approve quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws. Their voting generally takes place by mail-in ballot. The Board of Governors also elects or appoints executive directors and is the ultimate arbiter on issues related to the interpretation of the Articles.

³²The IC/IMFC was intended as a provisional body, to be replaced eventually by a decision-making ministerial-level Council.

³³IMF (1974).

³⁴Articles of Agreement, Article XII, Section 3.

³⁵The United States, Japan, Germany, France, and the United Kingdom appoint their own EDs. China, Russia, and Saudi Arabia have each chosen to elect a Director that represents only their country.

for 23 (largely Francophone) countries in Africa.³⁶ The Chair of the Board is charged with steering discussions towards achieving as wide a consensus as possible, and very seldom is a formal vote taken. At the conclusion of a meeting, the Chair ascertains the “sense of the meeting,” and a “summing up” is prepared which reflects the views of the (quota-weighted) majority, as well as minority views.

Countries are free to choose the constituency to which they belong, taking into account regional and other considerations (and in agreement with the other members in the constituency). Each constituency has the freedom to decide how and from which countries to select its Director, as well as which rotation scheme to use when filling other positions. In general, these schemes reflect the relative quota of each member country in the constituency, and practices vary widely. Countries are not allowed to split their vote—Directors must cast the votes of their countries as a single unit. Therefore, Directors representing multiple countries must weigh the interests of all the countries they represent when deciding what position to take. Each constituency also has its own arrangements regarding Director consultations with the country authorities.

Management. While the Articles only make explicit reference to the Managing Director, in this evaluation we refer to “Management,” which comprises the

³⁶Given the current distribution of voting power, it is possible for a fifth of the member countries to muster a majority of the voting power, which is enough to make many important decisions, including in regard to lending. Special majorities of 70 and 85 percent of the vote are needed for some decisions, including those involving significant institutional change.

Managing Director (MD), a First Deputy Managing Director (FDMD), and two Deputy Managing Directors (DMDs), and their staff. Under the Articles, the MD is both the non-voting Chair of the Board and the chief of the operating staff of the Fund. He is charged with conducting “the ordinary business of the Fund” under the “general control” of the Board.³⁷ Like the staff, but unlike the Executive Directors, the MD owes his duty “entirely to the Fund and to no other authority.”³⁸ Through an informal convention dating to the Fund’s establishment, the MD has always been European, and the FDMD has been a U.S. national since the creation of this post. Management is responsible for preparing policy and operational papers distributed to the Board, for the administration of technical assistance, for appointing and dismissing staff, and for the management of the organization. (The IMF **staff** numbers some 2,600 people and is known for its hierarchical, disciplined, and generally cohesive institutional culture. Key staff responsibilities include preparing policy papers, conducting the preparatory work for bilateral and multilateral surveillance, negotiating Fund arrangements on an *ad referendum* basis, and providing technical assistance to member countries.)

While not the focus of this evaluation, informal country groupings play an important role in the governance of the Fund. A number of informal **country groupings**, including the G-7, the G-20, and the G-24, meet regularly to coordinate positions and issue communiqués. They often bring issues to the attention of the Board and/or the IMFC.

³⁷Articles of Agreement, Article XII, Section 4.

³⁸Articles of Agreement, Article XII, Section 4(c).

ANNEX 2

Abstracts of Working Papers Prepared for the IEO Evaluation of IMF Corporate Governance

IMF Governance Structures and Practices

Chelsky, Jeff, “Summarizing the Views of the IMF Executive Board” (BP/08/05)

This note describes and assesses the process for summarizing the views of the Board. Accurate summaries of the Board’s views are a key element of sound IMF governance. For these summaries to provide effective and legitimate guidance to the institution, they must be clear and reflect a sufficiently broad range of views from across the membership. Based on an analysis of a sample of Summings Up, the paper assesses the adequacy of current practice from the standpoint of ensuring continuity, clarity, and accountability of Board deliberations. It concludes that while the process seems to be working well on the whole, minority views are inconsistently reported, and consensus views and decisions are not clearly distinguished from those of groups of Directors.

Chelsky, Jeff, “The Role and Evolution of Executive Board Standing Committees in IMF Corporate Governance” (BP/08/04)

Numerous attempts have been made to improve the effectiveness of standing committees of the Board, but considerable dissatisfaction remains with their performance, particularly among members of the Board itself. Drawing on interviews, survey data, previous reviews of the Fund’s Board committee structure, principles of good corporate governance, and experience in other multilateral institutions, the paper concludes that Board committees hold unrealized potential to improve the Fund’s internal governance. The paper analyzes the factors affecting the effectiveness of Board committees and provides recommendations for improvement. These include measures to encourage Directors to take stronger ownership of Board committees, changes to the overall committee structure and improvements in committee work practices.

Clark, C. Scott, and Jeff Chelsky, “Financial Oversight of the International Monetary Fund” (BP/08/06)

This paper evaluates the IMF’s accountability framework for financial audit and control and risk management. It describes the evolution of the Fund’s system for financial audit, focusing on the External Audit Committee. It also compares the framework at the Fund to those in other international organizations. The paper concludes that the current structure of financial oversight is not robust because the owners of the institution are not represented in the audit process. It recommends ways to strengthen the current framework to enhance accountability and ensure more effective oversight by the shareholders of the Fund including by strengthening the role and capacity of the Board in oversight of financial audit and control.

Mountford, Alexander, “The Formal Governance Structure of the International Monetary Fund” (BP/08/01)

This paper provides a description of the Fund’s current governance structure and practices, including the main decision-making organs as established by the Fund’s Articles of Agreement. It reviews the composition and membership, powers, and activities of the Board of Governors and its advisory committees, as well as the size, composition, and main features of the Board. The roles and functions of the Managing Director and staff are also described.

Mountford, Alexander, “The Historical Development of IMF Governance” (BP/08/02)

This paper traces the evolution of the Fund’s main decision-making organs and related bodies, such as the International Monetary and Financial Committee. It begins with the Fund’s foundation, paying particular attention at critical junctures when the Fund’s governance was modified in response to changes in the global economy.

Shakow, Alexander, "The Role of the International Monetary and Financial Committee in IMF Governance" (BP/08/03)

This paper examines the history and assesses the workings of the International Monetary and Financial Committee (IMFC). It concludes that IMFC meetings serve important governance functions, primarily as an event-forcing occasion, but that its role is limited by weaknesses in its structure and working practices. The IMFC's communiqués fall in a gray zone between directives and advice, which reduces accountability. Committee communiqués often provide unclear guidance on Fund priorities and strategy. Also, the Committee has done little to resolve major logjams and has not been source of strategic initiatives, which have more frequently come from informal groupings outside the IMFC. The paper outlines steps that could be taken to strengthen the Committee's effectiveness in these areas.

Benchmarking and Comparisons

Dalberg Global Development Advisors, "Lessons from Private Sector Governance Practices" (BP/08/07)

On the basis of an extensive review of codes of good corporate governance from around the world, this study identifies 14 principles and practices that are relevant to the IMF, taking into account the differences between the Fund and a private corporation or state-owned enterprise. The paper describes each principle, explains its logic, provides examples of their application, and identifies the questions that each principle raises for the IMF's governance. The paper also describes private sector processes and indicators for evaluating governance systems and those that may be appropriate for assessing IMF governance.

Martinez-Diaz, Leonardo, "Executive Boards in International Organizations: Lessons for Strengthening IMF Governance" (BP/08/08)

This paper compares and contrasts the Fund's Board with the boards of eleven other intergovernmental organizations. It identifies four key roles that executive boards are expected to play in these organizations—those of political counterweight, performance policeman, democratic forum, and strategic thinker—and assesses how well the boards are equipped to play these roles. The exercise generates three "models" of governance, each with a different set of comparative advantages. The paper concludes that the twin crises of effectiveness and legitimacy that the IMF is currently facing are related to the Fund's adherence to a particular model of governance. The paper offers

recommendations on how to strengthen the Board's capacity to play other key roles.

Fund Governance in Action

Bossone, Biagio, "IMF Surveillance: A Case Study on IMF Governance" (BP/08/10)

This study examines the role that the Fund's governing bodies have played in the conduct of surveillance and in the adaptation of surveillance frameworks over time. It examines not only formal governance structures, but also the key role played by informal country groupings in Fund surveillance. The paper concludes that while the current model of IMF governance has helped to build consensus on adapting surveillance policy to changes in the world economy, it has weakened the role of the IMF in delivering effective surveillance. Bossone identifies specific aspects of Fund governance that may be responsible for these shortcomings.

Bossone, Biagio, "Integrating Macroeconomic and Financial-Sector Analyses Within IMF Surveillance" (BP/08/11)

This study examines how the Fund undertook the integration of financial-sector issues into traditional surveillance of members' macro-economy, paying special attention to how the IMF's governing bodies performed during the process. This integration became imperative after emerging-market crises in the 1990s illustrated the importance of macroeconomic and financial-sector linkages. The paper concludes that the Board was an implementer and task-master, but it was not a source of strategic initiatives, which came from outside the Fund, primarily from informal country groupings. The Board's performance in this process was hindered by a lack of financial-sector expertise in the Board.

Bossone, Biagio, "The Design of the IMF's Medium-Term Strategy: A Case Study on IMF Governance" (BP/08/09)

This study analyzes the process through which the IMF's Medium-Term Strategy (MTS) was formulated, paying special attention to how the Fund's governance arrangements performed during this key episode of strategy formulation. The MTS, published in September 2005, provides a framework to enable the Fund to respond better to the needs of its members. The study portrays the MTS-formulation process as complex, internally driven, and difficult at the start due to initial managerial problems. These difficulties were eventually resolved through the decisive intervention of the Managing Director. While recognizing the strengths of the process, the study concludes that

a better organized, more open, and inclusive process, handled by the Managing Director from the outset, and benefiting from a more proactive Board, would have led to a broader and deeper review of Fund strategic issues, thus presenting members with a wider range of options for discussion.

Campbell, Katrina, "Managing Conflicts of Interest and Other Ethics Issues at the IMF" (BP/08/12)

This study assesses the IMF's structures, policies, and practices at the Board and management levels that are meant to prevent and managing misconduct and conflicts of interest. The paper compares IMF practices and policies with those of other international organizations, as well as industry best-practice guidelines. It finds that the Fund's governance system is not well designed to identify actual and potential conflicts of interest and ethical problems among Executive Directors and the Managing Director. In particular, whistle-blower protections are not in place, codes of conduct lack clarity, and the procedures for investigating and dealing with misconduct by an Executive Director or the Managing Director are not clearly delineated. The Board Ethics Committee does not appear to be active.

Cortés, Mariano, "The Governance of IMF Technical Assistance" (BP/08/13)

This paper examines the performance of the Fund's governance in the strategic management of the Fund's technical assistance (TA). It examines how corporate practices governing the Fund's TA have changed significantly over the last two decades. The paper concludes that while the Board has adopted stronger transparency and accountability practices, its strategic oversight over TA has not been effective. In particular, systematic stock-takings of TA activities and policies had long lags between them, and reporting

and evaluation at the project and country level were scant at best. The process of developing the criteria for allocating TA resources provides an example of the difficulty of defining exactly the purview of IMF Management as distinct from that of the Board.

Peretz, David, "The Process for Selecting and Appointing the Managing Director and First Deputy Managing Director of the IMF" (BP/07/01)

This paper reviews the formal and informal processes for selection and appointment of the Managing Director and First Deputy Managing Director. It examines the historical evolution of the processes and compares them to those in other international organizations and in the private sector. The study concludes that the processes are insufficiently transparent, encourage "deal-making" among top shareholders, and exclude qualified candidates on the grounds of nationality. Peretz reviews proposals made for improving the IMF process, notably by the working parties of the boards of the Fund and Bank, which produced a joint draft report in 2001 and identifies promising approaches to improving the process in future.

Stone, Randall W., "IMF Governance and Financial Crises with Systemic Importance, Summary" (BP/08/14)

This paper examines the performance of the Fund's governance during times of systemic crisis. Crises in systemically important countries pose acute governance problems because of the stakes involved, the amount of resources that must be mobilized, and the need for rapid decision making. The paper examines six cases of crisis in systemically-significant countries and illustrates how informal decision-making procedures take on prominence during these episodes. Because most shareholder input into decision making is confidential, however, there is an absence of effective *ex post* accountability.

ANNEX

3

Summary of Views from Civil Society Organizations

The IEO surveyed a sample of 32 civil society organizations (CSOs) from around the world to obtain their views on aspects of the IMF's internal governance.³⁹ Responses were received from nine organizations and individuals. To ensure candid responses, their identities have been kept confidential.

There was a general consensus among respondents that current channels of communication between the IMF (including the Board) and CSOs are inadequate and that formal consultation is lacking.⁴⁰ Several respondents called for a formal process for external stakeholders to consult with the IMF *before* policies are enacted. A common complaint was a lack of transparency in Board processes, which makes it difficult for CSOs to gauge whether their views are considered in Board deliberations. Many called for earlier release of Board minutes⁴¹ and for the release

of transcripts of Board meetings. Several CSOs viewed the IMF's approach to CSO relations as one-sided and, at times, "patronizing," rather than one of partnership. The accreditation process and involvement of the IMF's External Relations Department were also viewed as problematic, with some CSOs noting that their inquiries are sometimes regarded with suspicion.

Many respondents expressed the view that the IMF's governance structure is inadequate to hold the institution accountable for its decisions to stakeholders. They considered the selection process for the Managing Director to be fundamentally flawed and called for a more transparent and merit-based process. They also called for a process that allows Management to be held responsible by the Board and member countries for the operations of the Fund. Some respondents expressed the view that the Managing Director should not chair the Board.

Several CSOs argued that the Board of Governors, directly or through the IMFC, should evaluate the performance of the Board based on objective criteria. Some CSOs argued that the Executive Board should include more senior-level figures, and that the dual role of Executive Directors as both officers of the Fund and representatives of their governments compromised accountability. Many argued that weighted voting and the constituency system is anachronistic and should be replaced with a system of double-majority voting.

³⁹The questionnaire sent to CSOs appears in the background material to this evaluation, available on the IEO website at www.iew-imf.org.

⁴⁰This was consistent with the findings of an IEO survey of member country authorities, which found that almost two-thirds of respondents "rarely or never" meet with representatives of civil society. Members of the Fund's Executive Board were somewhat more open, with 18 percent indicating that they meet with or consult representatives of civil society "regularly" and 43 percent indicating that they do so "on an *ad hoc* basis." Respondents to a survey of senior IMF staff reported being similarly engaged.

⁴¹Currently, minutes of Board meetings are made available to the public after 10 years.

Transparency: Disclosure and Archive Policies

A necessary condition for public accountability is transparency of information, an area in which the Fund has made considerable progress over the past decade, with many Article IV staff reports, policy papers and summaries of Board meetings now published on the Fund’s website. As part of its shift to greater transparency, the Fund began to grant public access to its archives in 1996. Access has been gradually liberalized. Currently, Board documents more than five years old, Board minutes more than 10 years old, and other institutional material more than 20 years old are available to the public, on request. Confidential documents that meet these criteria are automatically declassified. Declassification of the relatively small number of documents classified *strictly confidential* or *secret* requires Management approval.

Views on further liberalization of the Fund’s disclosure policy are split. Just under half (48 percent) of Board members and 44 percent of member country authorities surveyed view the current level of public access to Fund documents as “adequate.” At the same time, large minorities support moving toward greater disclosure. Forty percent of the authorities and Board members surveyed responded that the range of documents that are made public should be expanded; there were similar levels of support for reducing the amount of time before documents are made available. Over 40 percent of staff also believes the amount of time before documents are made public is excessive.

In any case, much can be done to facilitate public access to available materials, even within existing

rules. For example, the archives page on the Fund’s external website could be made more user friendly, and responses to requests in languages other than English could be accepted. The website addresses the needs of “researchers” (rather than members of the public, more broadly) and requests that individuals who seek access, to the archives participate in a “reference interview.” While the purpose of this interview is to assist in focusing the request, the language used could be seen as intimidating to some members of the public.

If document requests are relatively straightforward, IMF archivists respond by sending electronic files of publicly available documents. However, publicly available archival material is not routinely placed on the Fund’s website due to a perceived conflict between the Fund’s publications policy and its archives policy.⁴² This approach has the effect of undermining access to publicly available Fund documents, particularly for those outside of Washington, D.C. The Board should be encouraged to reconcile these two policies and adapt its archives policy to existing technology to realize both the spirit and the letter of the Fund’s disclosure policy.

⁴²According to the Fund’s Legal Department, neither policy was formulated with the other in mind. Since placement of material on the Fund’s website is considered “publication,” it is the publications policy that takes precedence, even when the document in question is publicly available. Since publication requires additional approvals, archival materials that are publicly available cannot be routinely placed on the Fund’s website.

Good Practice: Selection and Evaluation of Executive Directors, Alternates and Advisors

The effectiveness of Board members—Executive Directors, Alternates and their advisors—is strongly determined by the skills and experience of the individuals selected to fill those positions. Beyond what is contained in the Fund’s Articles of Agreement and By-Laws, there is currently no standardized job description for Executive Directors or Alternates. In 2003, an attempt was made by the Committee on Executive Board Administrative Matters (CAM) to lay down minimum basic responsibilities and qualifications for the professional staff in Executive Directors’ offices in order to “help authorities identify fully qualified candidates.”⁴³ However, agreement among Executive Directors could not be reached, even for voluntary guidelines. As a result, job criteria and selection processes are still determined exclusively by processes internal to each constituency and by the discretion of individual member-country authorities.

Given the importance of having appropriately qualified and experienced staff in the Board, the IEO evaluation team sought to identify examples of good practice in the selection of Board members. These involve clearly specified qualifications, a transparent process that encourages the selection of the best-qualified candidates, and a transparent process for evaluating performance. Policies and practices vary widely from constituency to constituency. Some constituencies do not have clear rules for staff selection, while others, such as the Nordic-Baltic constituency, maintain detailed job descriptions for each position in the Office of the Executive Director. Duties and

qualifications (such as macroeconomics and political economy expertise, language ability, and familiarity with the IMF’s policies and procedures) are clearly spelled out.

In terms of good practice in the selection of Directors and other officials, the guidelines adopted in 2003 by the constituency representing Anglophone Africa offer a good benchmark. These are described in detail in a publication prepared by their office.⁴⁴ The constituency has a rotation system under which each country has a turn nominating candidates for the position of Alternate. Immediately after completing his or her term as Alternate, each will also serve as Director for one term. Three nominees are put forward to be considered by a panel of six Governors from the constituency. If none of these are deemed suitable, the nominating country is given a “second and final chance” to present three candidates. If none these are deemed suitable, that country forfeits its turn in favor of the next country in the line. Successful candidates are then recommended to the full constituency.

In terms of evaluation, the constituency currently headed by the Director from Australia offers a good benchmark. The constituency has an informal performance evaluation framework in place for all professional staff. The framework is tailored by job position and based on the IMF’s Annual Performance Review template. Appraisals prepared by the Director can be shared with the evaluatee’s authorities. The Director has also agreed to be subject to a review based on input from his staff.

⁴³“Capacity Building Measures for the Offices of Executive Directors,” EB/CAM/03/5, June 26, 2003.

⁴⁴Africa Group I Constituency (2003).

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Statement by the Managing Director
IMF Staff Comments
External Audit Committee Comment

Joint Statement by the Executive Board
and the IMF Managing Director

**STATEMENT BY THE MANAGING DIRECTOR ON THE REPORT BY
THE INDEPENDENT EVALUATION OFFICE ON THE EVALUATION OF ASPECTS OF
IMF CORPORATE GOVERNANCE—INCLUDING THE ROLE OF THE EXECUTIVE BOARD**

**Executive Board Meeting
May 21, 2008**

1. I very much welcome the IEO report entitled, “Report by the Independent Evaluation Office on the Evaluation of Aspects of IMF Corporate Governance—Including the Role of the Executive Board.”

2. In recent months, significant progress has been made in the reform of the Fund’s governance framework. In particular, the Fund’s Board of Governors has initiated a process that I am confident will realign members’ voting power within the Fund in a manner that enhances the Fund’s effectiveness and legitimacy.

3. The IEO report includes analysis and recommendations covering a wide range of issues beyond quota and voice reform that involve the fundamental institutional framework of the Fund. The staff has circulated comments on selected aspects of the IEO report.

4. The Board discussion of the IEO report should be seen as the beginning of a process of considering governance reforms going beyond the areas covered so far. It provides an excellent opportunity to hear the views of Executive Directors on various aspects of IMF governance. As I have indicated in my informal conversations with Executive Directors, as Managing Director I will aim to learn from the IEO’s report and from the Board’s discussion of its recommendations.

5. On the basis of the discussions on governance being opened by the IEO report, I hope we can develop broadly shared ideas among the membership at large that will enable us to advance further in building a stronger, more modern, and more effective Fund. I plan to announce some initiatives to take the governance reform forward in the coming weeks.

IMF STAFF COMMENTS ON THE REPORT BY THE INDEPENDENT EVALUATION OFFICE ON THE EVALUATION OF ASPECTS OF IMF CORPORATE GOVERNANCE— INCLUDING THE ROLE OF THE EXECUTIVE BOARD

Executive Board Meeting
May 21, 2008

A. Legal Department

LEG's comments on the IEO Report entitled "Aspects of IMF Corporate Governance—Including the Role of the Executive Board" are limited to several areas where staff is of the view that the Executive Board would benefit from additional information regarding both the existing framework and recent developments.

I. Executive Board Committees

The IEO Report correctly notes that the Board's role as an executive body flows from a number of provisions in the Articles: its name; its responsibility for "conducting the business of the Fund" and the requirement that it "function in continuous session." The IEO recommends that, given developments over the past 60 years, the Executive Board should perform a supervisory rather than an executive role, which could be facilitated, in part, through a greater reliance on Executive Board committees. It should be emphasized, however, that Executive Board committees generally perform an advisory function: while they make recommendations, final decisions are taken by the Executive Board. Accordingly, although greater reliance on committees could represent a more efficient way for the Executive Board to conduct the business of the Fund (e.g., Board decisions could be taken on a lapse-of-time basis based on a committee's recommendations), such reliance would not, in and of itself, change the scope of the Executive Board's legal responsibilities. The Board would remain an executive organ.

II. Management Accountability

Paragraph 62 of the IEO Report states that "there is no formal process through which the Board reviews the performance of the MD" and "even if such a process were in place, there are no standards or benchmarks to assess performance."

A performance review framework has, in fact, been established. On October 16, 2007, the Executive Board approved a "performance feedback mechanism" designed to enable the Executive Board to assess the performance of the Managing Director. The mechanism envisages that performance feedback would be of a two-way character, permitting the Managing Director to share his assessment of the performance of the Executive Board. Under the mechanism, it is envisaged that a small group of Executive Directors will canvass their colleagues in setting objectives and, at a later stage, assess the performance of the Managing Director against these objectives. Consistent with this framework, the Dean of the Executive Board formed the Working Group on the Framework of the Managing Director's Performance Evaluation, of which he is chair. In consultation with the Managing Director, the Working Group is in the process of developing performance objectives that, if approved by the Board, would be used to assess the Managing Director's performance at the end of 2008. Consistent with the framework approved in October 2007, objectives regarding the performance of the Executive Board are also being developed.

III. Misconduct and Conflict of Interest

Paragraph 63 of the IEO Report identifies perceived weaknesses in the existing framework that addresses potential misconduct or conflict of interest of the Managing Director. The staff would note the following:

- As observed by the IEO, the legal framework that governs potential misconduct or conflict of interest is the Managing Director's contract with the Executive Board. The establishment of an explicit and coherent set of rules on this topic that is subject to Executive Board oversight was a matter of considerable priority for the Executive Board when the current Manag-

ing Director was appointed (and particularly for the Working Group of Executive Directors regarding the Managing Director’s Contract, which was charged with this task). Several aspects of this framework merit emphasis. First, since the Managing Director is not a staff member, it is appropriate that the instrument establishing the requirements in this area be his/her contract, given that the staff rules (many of which the MD has promulgated) do not apply to the MD. Second, while the contract provides that the standards of conduct applicable to staff shall also apply to the Managing Director, it specifically identifies several requirements included that are different—and in some cases more onerous—than those applicable to staff. Finally, and consistent with the Executive Board’s responsibilities *vis-à-vis* the Managing Director, the contract provides that a number of activities require Executive Board approval, and that the Managing Director should consult with the Executive Board if he needs clarification regarding the meaning of these requirements or their application in a particular circumstance.

- Paragraph 63 points out that there is currently no “whistleblower” protection for persons who report misconduct. Shortly after taking up his position, the Managing Director requested that a procedure for “whistleblower protection” be established. Staff expects that the procedure, which has been designed in consultation with the Ethics Officer, will be finalized shortly. It is expected to provide a mechanism for anonymous complaints to be made concerning both staff members and the Managing Director. Its application to complaints against Executive Directors will be discussed with the Ethics Committee of the Executive Board.

B. Secretary’s Department

SEC’s comments pertain to the issue of summings up.¹

In general, the IEO evaluation report and background paper present fairly the experience with summings up. However, several technical aspects of process need clarification in capturing the unique and crucial role of summings up in distilling key Board messages. In particular, paragraph 48 of the IEO Report does not describe the existing framework for Executive Board ownership of the summing up. The following might be noted:

- **Executive Directors have opportunities to comment on, and ask for revisions to, all summings up before they are finalized.** Policy summings up go through extensive review by Executive Directors following the Board meeting, and wherever consistent with the Board discussion, comments made by Executive Directors during the review process are incorporated. The procedures are aimed at ensuring the widest possible buy-in to a policy summing up.
- **Policy summings up are the basis for implementation of the related policy, as well as future reviews and evolution of Fund policies.** They are often cited extensively in staff reports for the Executive Board to indicate the degree of support reached for particular aspects of a matter in previous Board discussions. In SEC’s experience, such descriptions are rarely contested by Executive Directors.

Attachment. Technical Comments on the Summing Up

Country and Policy Summings Up

- Summings up on Article IV consultations serve a different purpose than summings up on policy discussions. For instance, summings up on country items are intended to convey the Executive Board’s messages on a member’s policy stance to the country authorities. They formally conclude the Article IV consultation.
- Unless otherwise specified in the Articles of Agreement, Board decisions may be taken with a majority of the votes cast. The summing up on policy matters is a vehicle for facilitating broader agreement than simply being a majority of the votes cast, as well as conveying Executive Directors’ views on the priorities in implementing and monitoring the approved policies going forward. While minority views may be recorded, policy is governed by the majority or consensus view.

Code Words and Minority Views

- Usage of “code words” has developed over time and been tested, and broadly accepted, in the context of Executive Board discussions. Code words have provided an important means to balance the tension between decision making that meets the minimum formal requirement—i.e., a simple majority of the votes cast based on the voting power of each Executive Director—and fostering the strong tradition of attempting to secure the broadest possible consensus—i.e.,

¹Technical Comments in Attachment.

- one that has the buy-in of the largest number of Directors.
- While most code words have specific numerical meanings, there is a degree of overlap in the definition and use of certain code words (“some” and “a number of”), which provides the Chairman and the Secretary a useful degree of flexibility in characterizing the strength of Executive Directors’ views. Executive Directors have generally found the limited overlaps acceptable.
 - Paragraph 22 of the background paper on summing up states that code words reflect both the number and voting share of Executive Directors supporting a given view. Although the interpretation of code words has evolved over time, there is currently—in the interest of transparency and good governance—no ambiguity in their usage. The Secretary uses code words solely to convey numbers, not voting share. The latter, especially in a decision context, is generally denoted by phrases such as “a majority of the Executive Board agreed.” The words “most” and “many,” while still denoting numerical code words, provide a helpful basis for securing and portraying broad Board agreement.
 - In recording minority views, there is a fine balance to be drawn between recording every minority view—which is impractical in a summing up, and not necessary given the extensive Board minutes—and conveying the broad thrust of a discussion. This issue is approached cautiously and with judgment, taking into account the importance of the issue, the degree of the divergence, and the extent to which these differences were actually discussed at the Board, as well as streamlining considerations. Further, as the IEO paper notes, a selective approach avoids a multiplicity of views on a single subject. Executive Directors always have an opportunity to call for inclusion of their minority views at the review stage but in practice are often not insistent on their inclusion in the summing up, as they are anyway recorded in the minutes of the meeting.²

²Although we have not systematically studied this issue, it is the understanding of the Secretary’s Department that the Fund’s formal minutes provide one of the most detailed accounts of Board discussions of any international organization.

**EAC COMMENT ON THE REPORT OF APRIL 9, 2008 BY THE INDEPENDENT
EVALUATION OFFICE TITLED ASPECTS OF IMF CORPORATE
GOVERNANCE—INCLUDING THE ROLE OF THE EXECUTIVE BOARD**

1. The EAC has read the above IEO report on IMF corporate governance and the background paper on financial oversight (BP/08/06) included amongst the accompanying papers. The EAC supports the main thrust of the report which recommends there be more clarity in the role of the Executive Board and the suggestion that more emphasis be put on the supervision and oversight of the functions of the Fund.

2. The report (paragraphs 77 and 78) also refers to the EAC and suggests that it does not continue in its present form. It suggests that the Executive Board form an audit committee of the Board in the more normal model (with the ability to include outside experts if necessary to get the level of knowledge appropriate for the role if they do not have it within their ranks). The separate background paper develops that theme at some length. While the EAC thinks there is a degree of negative bias put on the current arrangements and some inaccuracies in the description of how the EAC currently operates, the position recommended of an audit committee primarily of Executive Directors (provided the role of the Executive Board is changed to a supervisory and oversight role) is a reasonable conclusion.

3. The EAC recognises that the role of the Executive Board and the composition of an audit committee is an issue of governance for the Fund to reflect on and determine. However, from the relatively limited viewpoint of the EAC there does appear to be a significant degree of ambiguity in the role of the Executive Board. In the view of the EAC that is unhelpful and some clarification would be of assistance. In terms of the function of an audit committee, the key issue is that the Fund has access to the level of risk management, internal and external audit and financial reporting expertise currently represented on the EAC. Having financial reporting and related expertise on the audit committee is very important in terms of proper governance of an organisation like the Fund and should be the primary consideration in appointments to an audit committee regardless of how it is constituted.

4. If the Fund was contemplating moving to a situation where the audit committee was appointed

from within the Executive Board the current EAC would welcome the opportunity of having proposed Executive Board audit committee members working with the EAC in the interim while the formal structures were being changed. This would be a useful means of assisting the proposed appointees with an understanding of the role.

5. On a further related matter, the recent changes in senior staff at the Fund and the Institute of Internal Auditors (IIA) Quality Assessment of International Monetary Fund Internal Audit Activity has given rise to a further matter which the EAC wishes to draw to the attention of the Fund. The EAC agreed with the recommendation of the IIA that the EAC should be consulted on the appropriateness of the qualifications and experience of proposed appointees to the position of Director of OIA. Not seeking the views of the EAC in terms of the qualifications and experience needed to fulfil senior audit and finance roles is failing to make full use of the contribution the EAC could make. The EAC is disappointed that it was not consulted on the recent appointment to this position on the retirement of Mr. Keuppens.

6. It would also be part of a typical audit committee role for it to be consulted on the appointment of the chief financial officer of the entity. The retirement of Mr. Kuhn, Director of the Finance Department, is also a circumstance where the EAC could reasonably be expected to be consulted on the appropriateness of the qualifications and experience of a proposed appointee to the role.

7. The issue of consultation on appointments to the roles of Directors of Internal Audit and Finance are matters that the EAC anticipates will be included in its June 2008 report and will consider recommending a change to its Terms of Reference to explicitly address this aspect of its role.

Satoshi Itoh
Steve Anderson
Thomas O'Neill

May 14, 2008

JOINT STATEMENT BY THE EXECUTIVE BOARD AND THE IMF MANAGING DIRECTOR, MAY 27, 2008

The IMF's Executive Board and the IMF Managing Director, Mr. Dominique Strauss-Kahn, made the following statement on the Board's discussion on May 21, 2008 of the report by the Independent Evaluation Office (IEO) on the Evaluation of Aspects of IMF Corporate Governance—Including the Role of the Executive Board:

“The Executive Board and Management welcome the IEO report as a very useful contribution to their efforts to help strengthen the Fund's governance. The IMF has moved positively to undertake this kind of assessment—a move that places the Fund at the forefront of multilateral organizations.

The IEO report is part of an ongoing process to strengthen the IMF's governance framework. It builds upon the recently approved reforms of quotas and voice now being implemented, and makes recommendations for further strengthening the institution's governance.

In particular, the report has raised important questions in the following key areas:

- How to increase clarity on the respective roles of the IMF's different governance bodies;
- How to ensure effective ministerial and

Executive Board involvement in the institution's decision-making processes;

- How to strengthen the framework of management accountability, recognizing that this is an area where work is already underway.

It is important to recognize that many of the issues raised by the report are complex, interrelated, and need to be discussed holistically. They will take time to address.

The report's findings should thus be seen as the beginning of a broader discussion. This discussion will require the engagement of all parties at many different levels—involving not only the Executive Board and Management, but also the Fund's membership and other stakeholders more broadly.

The Executive Directors and Management have welcomed the opportunity to take this important discussion forward. We had a productive initial discussion of the issues raised by the report. We are committed to working together in the coming months to build on this discussion with a view to developing broadly shared ideas among the membership that will enable us to advance further in building a stronger more effective IMF.”

