

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.