6

Governance, Cooperation, and Transparency

IMF Governance

The IMF is accountable to the governments of its member countries. At the apex of its organizational structure is its ***Board of Governors***, which consists of one governor and one alternate governor appointed by each of the IMF's 184 member countries. The governor is usually the minister of finance or the head of the central bank. All governors normally meet once each year at the September/October IMF-World Bank Annual Meetings. The Annual Meetings are preceded by regional caucuses, constituency meetings, and meetings of groups of members, among which the meetings of the Group of 24 developing countries and the Group of Seven major industrial countries are particularly important. These groups promote the agendas of different constituencies within the membership, as do individual member countries in the pursuit of their national foreign policy objectives.

There are two committees of governors that represent the whole membership. The ***International Monetary and Financial Committee*** (IMFC) of the Board of Governors is an advisory body composed of 24 IMF governors (or their alternates)—ministers or other officials of comparable rank—representing the same countries or constituencies (group of countries) as the 24 Directors who make up the IMF's Executive Board. The IMFC normally meets twice a year, in April/May and at the time of the Annual Meetings in September/October. Its responsibilities include providing ministerial guidance to the Executive Board and advising and reporting to the Board of Governors on issues regarding the management and adaptation of the international monetary and financial system, including sudden disturbances that might threaten the system. The ***Development Committee*** (the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body also composed of 24 World Bank or IMF governors or their alternates—again, ministers or other officials of comparable rank. It usually meets the day after the IMFC. Both committees generally summarize their meetings in communiqués, which are published on the IMF's website.

The day-to-day work of the IMF is conducted at its Washington, D.C., headquarters by its ***Executive Board***; this work is guided by the IMFC and supported by the IMF's staff. The Board consists of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the IMF's Managing Director, who serves as its Chair. The Executive Board has a central role in policy formulation and in decision making in the IMF, and exercises all the powers for conducting the institution's business except those that the Articles of Agreement have reserved for the Board of Governors or the Managing Director.

The Board meets in "continuous session," that is, as often as the business at hand requires, usually for three full days each week. Total Board meeting time averages over 600 hours each year, which demonstrates the intense oversight exercised by the Board on the activities of the IMF. In calendar year 2003, the Board held 116 formal meetings (at which decisions are made), 32 informal seminars, and 8 other informal meetings, including committee meetings. In 2003, the Board spent 55 percent of its time on member country matters (mainly Article IV consultations and reviews and approvals of IMF financing arrangements); 19 percent of its time on global and regional surveillance and general policy issues (such as the world economic outlook, global financial stability reports, IMF financial resources, strengthening the international financial system, the debt situation, and issues related to IMF lending facilities and program

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design); and the remaining time on administrative and other matters.

Consensus Decision Making in a Cooperative Institution

Decision making by consensus has always been a central feature of the Executive Board's work. In the view of the IMF's founding members, the jurisdiction and far-reaching mandate of the new institution, with its diverse membership and their differing interests, called for a cooperative framework in which policy would be set by all and for all. The IMF's Rules and Regulations prescribe that "The Chairman shall ordinarily ascertain the sense of the meeting, in lieu of a formal vote." Thus, from the outset, the Executive Board, management, and staff developed working methods to establish common ground among the members in setting policy (see Box 6.1). Consensus decision making maintains the cooperative character of the IMF; safeguards the interests of the developing and emerging market countries that are, de facto, the users of IMF resources; and—ultimately—protects the rights and interests of the minority shareholders.

Box 6.1 Policy Consensus Building in Practice

A Board review of any policy item is, typically, initiated on the basis of a staff paper setting out the principal objectives of the policy, reviewing recent practice, and indicating where management and staff believe that changes may need to be considered. In the initial discussion, all Executive Directors intervene extensively, a number of them on the basis of written statements that they have circulated beforehand. The opening discussion may reveal wide areas of disagreement among Directors regarding the future direction and objectives of the policy. In such a case, the Managing Director, as Chair of the Executive Board, may call for a follow-up discussion for which management or staff may circulate a memorandum suggesting possible avenues for reconciling conflicting approaches.

When sufficient progress has been made in follow-up discussions to reduce sharp differences on broad policy objectives, the Managing Director asks the staff to draft detailed proposals for changes in policies and practices, building on the emerging areas of consensus. When considering specific policy proposals, the Chair is not satisfied with a narrow "sense of the meeting" (that is, a narrow majority if the matter were to be put to a vote) but urges the Board to consider matters until consensus is achieved or, at least, a very broad majority has emerged on the significant aspects of the policy under review. The "summing up" of the meeting by the Chair (which forms part of the Public Information Notice released after most Board discussions) indicates how views differed among Directors, as well as where they converged. In the end, the minutes of the meetings show not only the positions of each Director but also how the positions evolved and were adjusted in the light of the arguments of others and how a continuing give-and-take brought Board members to solutions that all, or almost all, found acceptable.

The subsection below on "Transparency of the IMF and its Members" illustrates how the consensus building process allows diverging views on an issue to be brought to common decisions.

The Board works as a college of officials who devote themselves full time to the tasks and purposes of the IMF. The "sense of the meeting," which the Chair must ascertain, is a position that is supported by Executive Directors having sufficient votes to carry the question if a vote were taken (see Appendix VII). "Consensus" denotes unanimity. While unanimity remains the objective, the Chair and the Board view the achievement of "a large majority" as sufficient for many decisions. Executive Directors are not subject to time constraints in expressing their positions, reservations, and questions, including often successive interventions in response to the questions and arguments of others. In this environment, the influence of individual Directors on IMF policies and decisions can—and frequently does—reach well beyond their voting power. Technical expertise is important; persuasiveness counts a great deal; diplomacy, timing, and experience all have an impact on the influence that an Executive Director can exert. It is a well-established practice that, on policy issues, all Directors intervene in successive "tours de table." The minutes of Board meetings, which are released to the public after 10 years, record all interventions by Executive Directors, management, and staff. The system thus ensures that consensus decision making is fully compatible with accountability.

Debate and reflection take place not only at formal Board meetings but also at informal gatherings of Executive Directors and in exchanges of views with the Managing Director and staff. IMF staff stand ready to help the Board's search for ways forward and to prepare additional material to

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ensure that all avenues are explored in the search for workable solutions. When members belonging to the same constituency hold differing views on a subject, the Executive Director can put the views on record but cannot split his or her vote. The resolution of such conflicts is for each Director to decide and any Director remains free to record an abstention or an objection to a particular decision. The system has a tempering impact and evidence shows that the decisions that finally result may well be the best that could be made in the circumstances. The stature of the Managing Director as Chair of the Board adds much weight to his interventions. Directors use informal contacts with the Managing Director to indicate where room for flexibility may be found. Directors also often turn to the Dean—the longest-serving Board member—or the IMF Secretary for guidance in the Board's work and for assistance in formulating possible ways forward in a difficult debate or in finding areas for compromise and resolution.

In line with the policies pursued since the mid-1990s to improve transparency, public information on Board activities is now being made available on a daily basis (see "Transparency of the IMF and its Members" below). Moreover, a growing number of members have agreed to the publication of country papers and the Chair's summing up of Article IV consultations in the Board (Public Information Notices, or PINs). However, while archival material generally becomes part of the public record after 5 years, there is a time lag of 10 years for minutes of Board meetings.

The Summing Up

In the Board's work on surveillance and general policy formulation, decision making by consensus is complemented by the practice of concluding Board discussions with a "Chair's Summing Up" or "Chair's Concluding Remarks." The summing-up procedure has become standard not only for Article IV country consultations but also to conclude Board consideration of policy and operational items.[1]

The summing up aims to include all the main strands of a Board discussion and to reflect differences between the Board's views and the positions of the IMF staff. The summing up also needs to indicate clearly the aspects of the debate on which Directors generally agreed as well as those on which views differed. Precise indications on whether, for example, "a majority" or "some Directors" held this or that view are important. Significant dissent by some Directors from the views of others or from the positions taken by the staff needs to be captured in order to round off a summing up. The parts of a summing up that reflect the sense of the meeting have the character and effect of a Board decision.

Safeguarding the Rights of Shareholders in the IMF

The cooperative nature of consensus decision making promotes the search for common ground through the active participation of all who share the responsibility for formulating and implementing institutional policy. It is an approach that promotes thorough reflection, leading to solutions that reconcile the differing interests of a large membership with a willingness to revisit and review decisions in light of changed circumstances. As a result, consensus decision making has been of considerable benefit to the institution and its members. It has been particularly valuable as a way of protecting the minority views held by IMF shareholders.

Members' Representation and Voice in the Institution

In its September 2003 Communiqué, the International Monetary and Financial Committee stressed that the IMF's effectiveness as a cooperative institution depends on all members having an appropriate voice and representation. The IMFC welcomed the measures being taken to improve the capacity of developing and transition countries to participate more effectively in IMF policy formulation and decision making. It also welcomed the Executive Board's progress report on quotas, representation, and voice, and called on the Fund to examine these issues further.

The measures referred to by the IMFC that had been taken by the IMF to enhance the capacity of Executive Directors from developing and emerging market countries to participate effectively in decision making in the Fund, within the current framework of voting power, included addressing staffing and other constraints faced by Directors with large multicountry constituencies. Representation of members in the IMF depends critically on the distribution of quotas, which was last discussed by the Executive Board in July 2003 (see Section 7). Further progress on voice and representation, including through any changes in quotas, would have required a broader consensus on the issue among the IMF's shareholders than then existed. After reviewing progress, and in light of the issue's complexity, in its April 2004 Communiqué the IMFC called on the Board to continue its work on IMF quotas, voice, and representation, and looked forward to a report on progress at its next meeting.

As part of the effort to seek a consensus among shareholders, at the April 2004 meeting of the Development Com-

[1]Board consideration of operational matters, financial issues, requests for use of IMF resources, and other matters is concluded, as needed, with formal decisions for which drafts are provided by the Fund's Legal Department. Extracts from selected policy decisions are published in the IMF's *Annual Report* (see Appendix III) and are reprinted in *Selected Decisions*.

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mittee, the Chair circulated a proposal for a road map on procedures and next steps in this area to the Committee members. The Executive Board of the Fund and the Board of Executive Directors of the World Bank were scheduled to produce reports on all aspects of the voice and participation issue for consideration by the Development Committee at the October 2004 Annual Meetings.

Box 6.2 Key Elements of the IMF's Transparency Policy for Documents

Use of Fund resources documents

- Voluntary but presumed consent to publication of staff reports on the use of Fund resources.
- Publication of staff reports on the use of Fund resources for programs involving exceptional access will generally be required from July 1, 2004, for management to recommend approval or augmentation of a program or completion of a review. Programs in place as of July 1, 2004, would be grandfathered.
- Voluntary but presumed consent to publication of Letters of Intent and Memoranda of Economic and Financial Policies.
- Publication of Poverty Reduction Strategy Papers (PRSPs) is required for management to recommend endorsement by the Executive Board.

Surveillance documents

- Voluntary but presumed consent to publication of Article IV country reports, as well as of Public Information Notices (PINs), following Article IV consultations, from July 1, 2004.
- Voluntary publication of Reports on Observance of Standards and Codes (ROSCs), Financial System Stability Assessments (FSSAs), and Assessment of Financial Sector Supervision and Regulation (AFSSR) reports.

Other documents

- The Executive Board decides whether to publish reports on IMF policy issues.
- Weekly publication of the Executive Board's agenda on the IMF's website.

Correction and deletion policy

- Deletions for documents that pertain to members are limited to highly market-sensitive material, and corrections are limited to necessary factual changes.

Archives and Board Minutes

- Public access is given in the IMF's archives to Executive Board documents that are over 5 years old, to minutes of Executive Board meetings that are over 10 years old, and to other documentary materials that are over 20 years old, subject to certain restrictions.

Transparency of the IMF and Its Members

The financial crises of the mid- and late 1990s underscored the importance of transparency as a key tool of crisis prevention in an environment of increased capital market integration. Greater openness on the part of IMF member countries encourages more widespread discussion and examination of members' policies by the public; it enhances the accountability of policymakers and the credibility of policies; and it facilitates efficient functioning of financial markets. Greater openness and clarity by the IMF about its own policies and the advice it provides to members contributes to a better understanding of the IMF's role and operations, and increases the Fund's accountability for its policy recommendations.

Formulated in January 2001, the IMF's transparency policy encourages the publication of country and IMF policy documents while fostering candor in policy discussions with members and preserving the Fund's role as a confidential advisor to members. In FY2004, the Fund continued to work to improve transparency, both of member countries' policies and of the IMF's assessments, within the current voluntary framework (see Box 6.2).

Transparency Policy Review

Background

In its January 2001 decision, the Executive Board adopted a policy on the voluntary publication of country documents and more systematic publication of policy papers and associated PINs. In its review of the transparency policy in June 2002 (see *Annual Report 2003*), the Board agreed to reconsider a possible move to a policy of presumed publication for Article IV country reports and reports on the use of Fund resources in FY2004.

At the time of the FY2004 Board discussions, staff analysis showed that, since the previous review in 2002,

- Publication of *Article IV country reports* had continued to rise: from 59 percent to 66 percent for stand-alone reports, and from 63 percent to 71 percent for combined Article IV-use of Fund resources reports. But publication rates remained uneven across regions.
- Nearly three-fourths of member countries agreed to publish at least one *country report*; over 90 percent had published a *country PIN*.
- Publication of stand-alone reports on *use of Fund resources* rose slightly, from 56 percent to 57 percent. Although three-fourths of stand-alone staff reports on use of Fund resources for normal access cases were published, the rate for *exceptional access cases* declined from 36 percent to 21 percent.
- The share of *reports with deletions* declined from 12 percent to 8 percent, reflecting, in part, a much lower rate of deletions from stand-alone use of Fund resources reports. Reports with corrections rose from 53 to 57 percent.

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Directors also discussed the modalities of voluntary but presumed publication for various documents. It was agreed that, under the policy of presumed publication, publication would be expected to occur within 30 calendar days of the Board's consideration of the relevant papers. In this context, Directors emphasized that presumption of publication required the explicit consent of the member, without which the document would not be published.

In addition, Directors reexamined the issue of allowing deletions of highly politically sensitive material and removal of material that would undermine the ability of the authorities to implement policies or that would render implementation more costly. While many Directors continued to favor the extension of the deletions policy to highly politically sensitive material, the majority of the Board did not support such a move, noting the practical difficulties of designing an objective test of "high political sensitivity" to implement such a policy and the risks of undermining the candor and comprehensiveness of Board documents. Directors urged the staff to continue to avoid language that would exacerbate domestic political challenges to implementing reforms.

Against this background, Directors generally agreed that the continued application of the current deletions policy was appropriate, with the scope of deletions covering highly market-sensitive information, including not only exchange and interest rate matters but also highly market-sensitive material in vulnerability assessments and the banking and fiscal areas. Directors also agreed that, when third-party analysis was presented in a staff report, the source should be indicated or a staff assessment of such analysis included in the paper.

In the context of increased publication, Directors expressed concern that pressures to delete significant elements of documents on grounds of high market sensitivity could intensify. They agreed that management could recommend to the Board that certain documents not be published if deletions of highly market-sensitive material would undermine the overall assessment of the Fund and its credibility.

Directors agreed to apply the broad principles for deletions and corrections now in place for country reports to policy papers prepared by the staff. Modifications to such policy papers before publication would be limited to factual corrections and deletions of highly market-sensitive material and country-specific references. If Directors considered that there was a danger of confusion when the summing up differed from the staff recommendations, the published version of the policy paper would indicate clearly in the text those staff positions that the Board had not endorsed.

On administrative papers, while a number of Directors favored a move to presumed publication, most agreed that publication should continue to be considered on a case-by-case basis. In all cases, staff recommendations regarding the publication of these papers would be explained to Directors when the papers were circulated to the Board.

On other publication-related matters, Directors supported publication of the Board agenda at the same time as it is made available to Executive Directors, with the indication that the agenda is tentative and subject to change (see Box 6.3).

The next Board review of the Fund's transparency policy is expected to take place by June 2005.

External Audit Mechanism

A key governance issue concerns the IMF's practices for financial oversight, particularly the audit of its financial statements. The IMF's external audit arrangements consist of an External Audit Committee and an external audit firm. The External Audit Committee has general oversight of the external audit function and internal control processes. It consists of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three years, on a staggered basis, and are independent. Committee members are nationals of different member countries of the IMF at the time of their appointment and must possess the qualifications required to carry out the oversight of the annual audit. The External Audit Committee generally meets twice a year in Washington and is available for consultation throughout the year.

The 2004 External Audit Committee members are Mr. Hazem Hassan (Chairperson), Chairman of KPMG Hazem Hassan, Egypt; Mr. Philippe Adhémar, Conseiller Maitre à la

Box 6.3 Publication of the IMF Executive Board's Weekly Agenda

In February 2004, the IMF began regular publication of a weekly calendar giving the agenda of its Executive Board. The measure was approved by the Board to enhance public access to information about the IMF's operations. The Executive Board is responsible for overseeing the day-to-day activities of the Fund on behalf of its 184 member countries.

The weekly calendar, which will be updated on a rolling basis, contains the tentative schedule of formal meetings and Board seminars. The Board's agenda is typically finalized the day before each meeting, so the calendar is necessarily tentative. Nevertheless, the calendar provides the latest available information on the Executive Board's scheduled activities.

To view the calendar, visit the IMF's website at *www.imf.org/external/np/sec/bc/eng/index.asp*.

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Cour des Comptes, France; and Mr. Pentti Hakkarainen, Board Member, Bank of Finland.

The responsibility for performing the external audit and issuing the audit opinion rests with the external audit firm. The external audit firm is selected by the Executive Board in consultation with the External Audit Committee and is appointed by the Managing Director. At the conclusion of the annual audit, the External Audit Committee transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, to the Board of Governors. In the process, the External Audit Committee briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for a period of five years. Pricewaterhouse-Coopers (Washington) is the IMF's present external auditor.

The IMF's financial statements for FY2004 form Appendix IX of this Annual Report.

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