

IEO

Independent Evaluation Office
of the International Monetary Fund

Studies of IMF Governance *A Compendium*

Ruben Lamdany & Leonardo Martinez-Diaz

Editors



**Studies of
IMF Governance**
A Compendium

Ruben Lamdany & Leonardo Martinez-Diaz
Editors

© 2009 International Monetary Fund

Production: IMF Multimedia Services Division

Cover design: Kelly Michele Barrett

Cover photos: top: Stephen Jaffe/IMF photo; bottom: IMF file photo

Cataloging-in-Publication Data

Studies of IMF governance : a compendium / Independent Evaluation Office of the International Monetary Fund ; Ruben Lamdany & Leonardo Martinez-Diaz, editors. – [Washington, D.C.] : International Monetary Fund, 2009.
p. ; cm.

Includes bibliographical references.

ISBN 978-1-58906-863-6

1. International Monetary Fund – Management. 2. Corporate governance. 3. Financial institutions, International – Management. I. Lamdany, Ruben, 1954- II. Martinez-Diaz, Leonardo, 1976- I. Title. II. International Monetary Fund. Independent Evaluation Office.
HG3881.5.158 S78 2009

Please send orders to:

International Monetary Fund, Publication Services
700 19th Street, N.W., Washington D.C. 20431, U.S.A.

Telephone: (202) 623-7430 Telefax: (202) 623-7201

E-mail: publications@imf.org

Internet: www.imfbookstore.org

Contents

| | |
|--|-----|
| Foreword. | v |
| Abbreviations. | vii |
| 1. Evaluating the Governance of the IMF <i>Ruben Lamdany and Leonardo Martinez-Diaz</i> | 1 |
| Part I. IMF Governance: Evolution and Comparisons | |
| 2. Governance of the International Monetary Fund <i>Alexander Mountford</i> | 15 |
| 3. The IMF Council of Governors <i>Alisa Abrams</i> | 43 |
| 4. The Role of the International Monetary and Financial Committee in IMF Governance <i>Alexander Shakow</i> | 58 |
| 5. Executive Boards in International Organizations <i>Leonardo Martinez-Diaz</i> | 82 |
| 6. Lessons from Private Sector Governance Practices <i>Dalberg Global Development Advisors</i> | 127 |
| Part II. Governance of the Internal Workings of the IMF | |
| 7. The Role and Evolution of Executive Board Standing Committees in IMF Corporate Governance <i>Jeff Chelsky</i> | 173 |

8. Summarizing the Views of the IMF Executive Board
Jeff Chelsky 208
9. Financial Oversight of the International Monetary Fund
C. Scott Clark and Jeff Chelsky 229
10. Managing Conflicts of Interest and Other Ethics Issues
at the IMF
Katrina Campbell 254
11. The Process for Selecting and Appointing the Managing
Director and First Deputy Managing Director of the IMF
David Peretz 276

Part III. Fund Governance in Action

12. IMF Surveillance: A Case Study on IMF Governance
Biagio Bossone 293
13. The Design of the IMF's Medium-Term Strategy: A Case
Study on IMF Governance
Biagio Bossone 338
14. IMF Governance and Financial Crises with Systemic
Importance
Randall W. Stone 369

About the Authors 375

The following conventions are used in this publication:

- 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, 2008–09 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, 2008/09) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2009).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to ¼ 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

The ongoing financial crisis has highlighted the importance of global institutions in addressing the main challenges facing a highly integrated world economy. The International Monetary Fund (IMF) is once again being called upon to help manage the current crisis and to bolster its surveillance activities to help prevent future crises. At the same time, there is an almost universal consensus that for the IMF to be effective, it will have to regain legitimacy by strengthening its governance, including by establishing better accountability frameworks and enhancing representation and voice of its members. These are some of the issues addressed in this volume.

The studies in this compendium were prepared as background for an evaluation of IMF governance by the Independent Evaluation Office of the IMF, which was completed in 2008. This evaluation has become particularly relevant in view of the expanded role that the IMF has been called to play in confronting the global economic and financial crisis. Among its main messages, the evaluation found that the IMF needs more systematic ministerial-level involvement and calls for the activation of a ministerial-level Council to be charged with major Fund decisions and with holding the institution and its management more accountable. The evaluation also recommended a reorientation of the IMF Executive Board towards a supervisory role and away from day-to-day operations. This would enable it to play a more effective role in formulating strategy, in monitoring policy implementation to ensure timely corrective action, and in exercising more effective oversight of management, a better framework for which needs to be in place. These findings and recommendations have also been voiced by the Committee of Eminent Persons on IMF Governance Reform established by the Managing Director of the IMF and chaired by Trevor Manuel, the former South African Minister of Finance. The Committee is composed of nine eminent persons from around the world, including current and former

IMF governors, academics and practitioners. Similar considerations underlie the corresponding sections of the G-20's Global Plan for Recovery and Reform.

It is my hope that the papers presented here will be helpful to policy-makers and scholars studying how to promote reform at the Fund, a task that is now more critical and urgent than ever, and, more generally, will provide useful insights to those examining the governance of other international organizations.

Thomas A. Bernes
Director
Independent Evaluation Office

Abbreviations

| | |
|-------|---|
| ACRM | Advisory Committee on Risk Management |
| AED | Alternate Executive Director |
| AfDB | African Development Bank |
| AG | Advisory Group |
| AML | Anti-Money Laundering |
| APC | Agenda and Procedures Committee (IMF) |
| ASC | Ad Hoc Audit Selection Committee (IMF) |
| AsDB | Asian Development Bank |
| ASX | Australian Stock Exchange |
| BCBS | Basle Committee on Banking Supervision |
| BIS | Bank for International Settlements |
| BP | British Petroleum |
| CAM | Committee on Executive Board Administrative Matters |
| CAP | Committee on Administrative Policies |
| CAR | Committee on the Annual Report |
| CBD | Central Banking Department |
| CEO | Chief Executive Officer |
| CFSP | Committee on the Fund's Strategic Priorities |
| CFT | Combating the Financing of Terrorism |
| CLWTO | Committee on Liaison with the World Trade Organization |
| COB | Committee on the Budget |
| CoI | Committee on Interpretation |
| CODE | Committee on Development Effectiveness (World Bank) |
| COGAM | Committee on Governance and Executive Directors' Administrative Matters (World Bank) |
| CSO | Civil society organization |
| CSU | Chairman's summing up |

| | |
|--------|---|
| C-XX | Committee of Twenty (IMF Ad Hoc Committee on the Reform of the International Monetary System and Related Matters) |
| DC | Joint Development Committee (World Bank, IMF) |
| DG | Director General |
| DMD | IMF Deputy Managing Director |
| DMV | Double-majority voting |
| DSU | Draft summing up |
| EAC | IMF External Audit Committee |
| EBRD | European Bank for Reconstruction and Development |
| ECB | European Central Bank |
| ECBR | Employment, Compensation & Benefits Review |
| ECOFIN | European Union's Economic and Financial Affairs Council |
| ED | Executive Director |
| EIB | European Investment Bank |
| EPA | Ex Post Assessment |
| EU | European Union |
| FAD | IMF Fiscal Affairs Department |
| FDMD | IMF First Deputy Managing Director |
| FIN | IMF Finance Department |
| FSAP | Financial Sector Assessment Program |
| FSF | Financial Stability Forum |
| FSS | Financial Sector Surveillance |
| G-5 | Group of 5 advanced nations |
| G-7 | Group of 7 advanced nations |
| G-8 | Group of 7 advanced nations, plus Russia |
| G-10 | Group of 10 advanced nations that formed the General Agreements to Borrow |
| G-11 | A group of 11 developing countries established in 2006 |
| G-20 | A steering committee created by the G-7, with membership of G-7 countries and systemically important developing countries |
| G-24 | 24 developing countries that coordinate their positions on international monetary affairs and development |
| G-33 | 33 developing countries that coordinate their positions on trade and economic issues |
| G-77 | Initially 77 developing countries that coordinate their positions on international economic issues, the group is currently comprised of 131 nations |
| GAO | General administrative order |
| GATT | General Agreement on Tariffs and Trade |

| | |
|------|---|
| GDDS | General Data Dissemination System |
| GEF | Global Environment Facility |
| GFSR | <i>Global Financial Stability Report</i> |
| GMI | Governance Metrics International |
| GN | Guidance note |
| HIPC | Heavily Indebted Poor Countries |
| IADB | Inter-American Development Bank |
| IC | Interim Committee (IMF) |
| IEO | IMF Independent Evaluation Office |
| ILO | International Labor Organization |
| IGO | Intergovernmental organization |
| IMF | International Monetary Fund |
| IMFC | International Monetary and Financial Committee of the IMF Board of Governors |
| ISS | Institutional Shareholder Services |
| ITO | International Trade Organization |
| JCR | Joint Committee on Remuneration of Executive Directors and Their Alternates |
| JPC | Joint Procedures Committee of the Bank and the Fund |
| LIC | Low-income country |
| LTPE | Longer-Term Program Engagement |
| MAE | Monetary and Exchange Affairs Department (IMF) |
| MCM | Monetary and Capital Markets Department (IMF) |
| MD | Managing Director (IMF) |
| MDB | Multilateral development bank |
| MDRI | Multilateral Debt Reduction Initiative |
| MTS | Medium-Term Strategy (IMF) |
| NATO | North Atlantic Treaty Organization |
| NYSE | New York Stock Exchange |
| OCEG | Open Compliance and Ethics Group |
| OECD | Organization for Economic Cooperation and Development |
| OIA | Office of Internal Audit and Inspection (IMF) |
| OPEC | Organization of the Petroleum Exporting Countries |
| OWT | One World Trust |
| PIN | Public Information Notice |
| PDR | IMF Policy Development and Review Department |
| PRGF | Poverty Reduction and Growth Facility |
| PRSP | Poverty Reduction Strategy Paper |
| PS | Policy Statement |
| QMV | Qualified majority voting |

| | |
|--------|--|
| ROSC | Report on the Observance of Standards and Codes |
| SDDS | Special Data Dissemination Standard |
| SDR | Special drawing right |
| SG | Secretary General |
| SOE | State-owned enterprise |
| SU | Summing up |
| TSE | Tokyo Stock Exchange |
| UFR | Use of Fund resources |
| UN | United Nations |
| UNCTAD | United Nations Conference on Trade and Development |
| UNDP | United Nations Development Program |
| WB | World Bank |
| WEMD | World Economic and Market Developments |
| WEO | <i>World Economic Outlook</i> |
| WHO | World Health Organization |
| WTO | World Trade Organization |

1

Evaluating the Governance of the IMF

RUBEN LAMDANY AND LEONARDO MARTINEZ-DIAZ

Why Evaluate IMF Governance?

The papers contained in this volume draw on background work done in preparation for a study of the governance of the International Monetary Fund (IMF) by the Independent Evaluation Office (IEO) of the IMF, and they seek to contribute to the ongoing dialogue on how best to strengthen the governance of this important global institution.¹ Since the IEO study was released in May 2008, the task of strengthening the IMF's governance, already pressing and long overdue, became a matter of urgent attention. The ongoing financial crisis that has precipitated the deepest global recession since the 1930s has raised questions about the Fund's capacity to perform its key surveillance mandate under its current governance arrangements. There is widespread concern that the Fund (and other international organizations as well) appears to have missed the crisis as it was evolving and thus did not issue timely and effective warnings. This has intensified calls to restructure the international financial architecture. But even as world leaders move in this direction, they seem to agree overwhelmingly that the IMF should remain a central part of that architecture. At the same time, they emphasize that a more legitimate, accountable, and effective IMF must emerge from the crisis.

¹For details on the IEO evaluation, see *Governance of the IMF: An Evaluation*, Independent Evaluation Office, International Monetary Fund, May 28, 2008. Available via the Internet: www.ieso-imf.org. The papers in this volume represent the authors' views and not necessarily those of the IEO, the IMF, or IMF policy.

What do we mean by “governance” in this volume, and what is the governance reform debate about? At issue is whether governance arrangements—the formal and informal structures and procedures that determine how an organization is steered and controlled—are the most appropriate given the institution’s mandate, the expectations of its shareholders and stakeholders, and the political environment in which it operates.

Much has been written in recent years on how to strengthen the governance of public and private sector institutions. In the private sector, high-profile corporate scandals earlier in the decade highlighted the importance of good governance in protecting shareholder value. These failures accelerated the production of at least a dozen codes of good corporate governance in countries around the globe. In the public sector, citizens’ demands for better-run state-owned enterprises, more responsive and accountable government agencies, and more transparent central banks also led to greater scrutiny of governance arrangements.

Based on codes developed in member countries, the OECD developed principles of good governance for the private sector and for state-owned enterprises. The OECD Council endorsed the Principles of Corporate Governance, standards and guidelines for good corporate governance practices and their implementation. The Principles have been endorsed by the IMF itself, and observance of the standards by the Fund’s member countries is routinely assessed as part of its Reports on the Observance of Standards and Codes (ROSCs). Additionally, the OECD developed Guidelines on Corporate Governance of State-Owned Enterprises (SOEs), which provide governments with benchmarks to help improve the governance of their SOEs and to evaluate their performance. The IMF has developed a Code of Good Practices on Transparency in Monetary and Financial Policies, as well as standards for Central Bank Internal Governance and Audit, which are also reviewed as part of the ROSCs.

Yet, international organizations—often forceful advocates of good governance in developing and transition economies—have lagged behind in terms of examining and strengthening their own governance arrangements. There are three reasons why governance reform has proven so difficult to address in international organizations. First, these organizations face the problem of “multiple principals” to a much larger extent than public and private enterprises. They are controlled by many governments—governments that often do not agree on what the organization should do. In addition, multiple principals make accountability a thorny problem. In contrast to the domestic political context, where citizens usually have channels to hold policymakers ultimately accountable, e.g., through elec-

tions, it is less clear where accountability ultimately lies for the actions of an international organization and how that accountability can be exercised.

Second, unlike private corporations, which focus on the clear, quantifiable goal of profit maximization, international organizations are entrusted with multiple and sometimes conflicting objectives. International organizations are asked, for instance, to promote free trade, eradicate world poverty, safeguard global financial stability, stop the spread of infectious diseases, and promote respect for human rights and democratic norms. In the case of the IMF, the Articles of Agreement list a series of institutional goals, including to promote international monetary cooperation, to facilitate the expansion and balanced growth of international trade, to promote exchange stability, to lend to members to allow them to correct balance of payments imbalances without resorting to measures destructive of national or international prosperity, and to shorten the duration and lessen the degree of disequilibrium of members' balance of payments. Measuring an international organization's contribution toward meeting such a variety of objectives is often difficult, if not impossible. Even more difficult, therefore, is evaluating the extent to which its governance structures facilitate or complicate these endeavors.

Finally, international organizations are political institutions embedded in the arena of world politics. As a result, governments regard international organizations not only as mechanisms for producing global public goods, but also as vehicles for advancing their national interests and as forums for securing voice and influence in international affairs. They therefore measure the effectiveness of an organization's governance structure not only by its contribution to its effectiveness, but also by the extent to which it affords them voice and influence. This dimension further complicates the evaluation of the governance of any international organization.

The remainder of this introduction provides background information on the IMF, puts the different papers in this compendium in context, and concludes with a discussion of the three cross-cutting themes that emerge from these studies: the need for greater ministerial-level involvement in the governance of the IMF, the need to redefine the role and activities of the Executive Board, and the need to address the accountability gaps that afflict the organization.

How Do We Evaluate IMF Governance?

Despite the above-mentioned difficulties, a re-evaluation of the governance of the International Monetary Fund is both necessary and urgent,

especially in the context of the global economic crisis. Since its creation in the 1940s, the Fund's membership has quadrupled in size and its mission as guardian of the par value system has long been superseded. The nature of its operations has changed from what was basically a cooperative of broadly similar countries to an organization where some members are always creditors and others are always borrowers. Also, the extent and complexity of its surveillance and technical assistance activities have expanded considerably. Yet, its governance structures and business practices have not evolved in line with these changes, raising the question of whether they have become obsolete.

Much of the debate about IMF governance has focused on whether and how its ownership structure should be adjusted to reflect the increasing weight of emerging market countries in the global economy (referred to as quota reform), and on whether emerging and especially low-income countries should receive voting power beyond their quotas (through the allocation of basic votes). But how the institution is steered and controlled goes beyond quotas and voting mechanisms—it also includes how the governing bodies are structured and what procedures are used for making decisions and holding decision-makers accountable. Those are the aspects of the IMF governance analyzed in this volume.

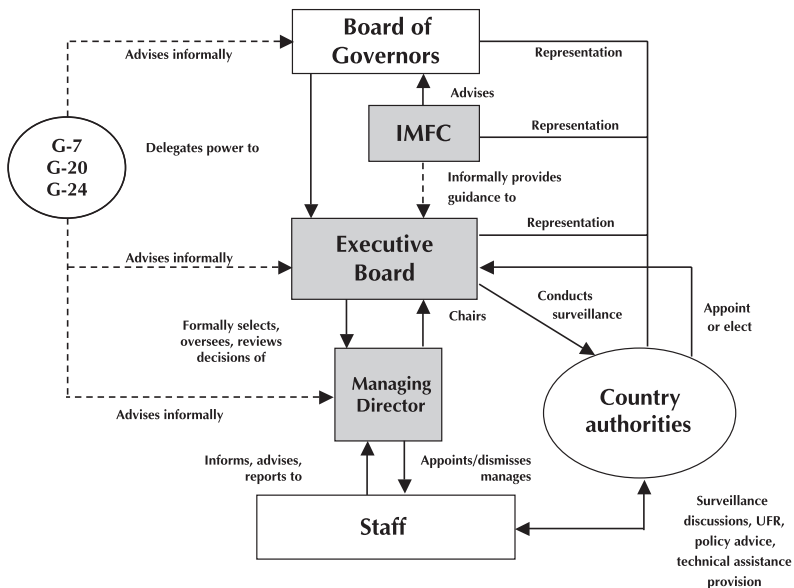
The papers in this compendium focus on the apex of the Fund's institutional structure—the Board of Governors, the Executive Board, Management, and the International Monetary and Financial Committee (IMFC). The Board of Governors is composed of one governor and one alternate from each of the IMF's 185 member countries, usually the finance minister or central bank governor. It meets once a year for a few hours and oversees the Executive Board (the Board), to which it has delegated most of its powers. The Board is composed of 24 Executive Directors (Directors), five 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. 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.

The IMFC is composed of 24 Governors, reflecting the constituencies in the Board, and it meets twice a year for about one day each time. While formally it is only an advisory body, informally it wields significant power, given its composition. Like the Interim Committee, which it succeeded in 1999, the IMFC was created as a forum to allow for ministerial-political-level involvement in the governance of the Fund, given that the Board of

Governors is impractically large. The Articles of Agreement contemplate the creation of a ministerial-level decision-making body, the Council, with a formal mandate to play this role. However, the membership has so far found it difficult to reach agreement on the specifics of this ministerial body, and therefore it has not been activated.

Another important element in the governance structure of the IMF, which this volume covers only indirectly, is composed of several informal country groupings. These meet regularly to coordinate positions and raise issues to the attention of the Board and/or IMFC; the best known and most powerful ones are the G-7, the G-20, and the G-24. These groupings operate outside the formal structure of the IMF, and their memberships are self-selected, which raises questions about its their legitimacy. In addition, there is the staff of the Fund, which comprises some 2,500 people from over 150 countries; they are generally known for their hierarchical, disciplined, and generally cohesive institutional culture. Figure 1 below shows the Fund's main governance structures, as well as their relationships.

Figure 1. Stylized View of IMF Governance



Source: Based on Martinez-Diaz, Chapter 5 in this volume.

The papers in this volume fall into three categories. The first provides background on the evolution of the governance of the Fund, drawing insights from the history of Fund governance and from current practices in the private sector and other international organizations. Alexander Mountford provides a lively description of how the Fund's governance organs evolved and explains their current structure and workings. The author was a protagonist in many of the events described in his paper. Alisa Abrams draws on primary sources to trace the discussions on the creation of a ministerial-level body for the Fund, starting with the Committee of Twenty in the 1960s to the current debate about activating the Council.

Two papers compare Fund governance with that of other organizations. A paper prepared by a team from Dalberg Global Development Advisors looks at practices in the private sector, while a paper by Leonardo Martinez-Diaz looks at other intergovernmental organizations.

Comparisons with other organizations are undertaken with caution. The degree to which the IMF can be compared directly to a business enterprise or to another international organization is limited. There is no other organization that has the same goals and operations as the IMF, and therefore, it would not be appropriate to adopt identical governance arrangements. On the other hand, aspects of the mandate and activities of many organizations are similar to those of the Fund. For example, the World Bank often lends to countries in parallel with the IMF, and provides technical assistance to country authorities. Like the Fund, the OECD and the WHO are engaged in surveillance, even though the former focuses on economic indicators and the latter on health indicators. Like the Fund, committees nested within the BIS formulate financial standards and codes. Moreover, these papers embrace the notion that useful ideas can be derived by examining the mechanisms through which other institutions (public or private) cope with challenges that have parallels at the IMF—facilitating strategic thinking, improving institutional effectiveness, promoting institutional accountability and learning, and increasing the organization's responsiveness to stakeholders and shareholders.

The second category of papers focuses on the internal workings of the Fund. They look at relatively narrow aspects of the functioning and operations of each of the governing bodies. Included in this group are studies by Jeff Chelsky describing the role and operation of the Executive Board's committees and the process for preparing summaries of Board discussions and decisions. The papers by Jeff Chelsky and Scott Clark and by Katrina Campbell describe how the IMF handles certain activities that are commonly considered fiduciary responsibilities of the Board (overseeing and enforcing the institution's framework for preventing and dealing with

misconduct and conflict of interest at the Board and Management levels, as well as with financial auditing). David Peretz describes how the selection process for the Managing Director and his Deputies is supposed to work, how it works in practice, how it works in other intergovernmental organizations, and how it might be reformed. Finally, Alexander Shakow examines the internal workings of the IMFC, including how its meetings are organized and how its communiqués are prepared.

Though these papers deal with technical and at times mundane aspects of the IMF's institutional life, the processes they describe are central to the Fund's effectiveness and legitimacy, as well as to the capacity of member countries to hold the institution and its decision-makers accountable. For example, dysfunctional committees or confusing summaries of Executive Board deliberations would hinder the effectiveness and efficiency of the institution. Also, the Fund's legitimacy would suffer greatly if the institution were not able to safeguard the robustness of its financial management or its ability to prevent misconduct at the levels of Board and Management. Similarly, a transparent leadership selection process is critical to ensure accountability and to confer legitimacy on the Fund's operations.

The third category of papers examines the Fund's governance "in action"—how the governance structures and arrangements work in practice to facilitate the delivery of the Fund's services to its members. There are two papers by Biagio Bossone; the first examines the relationship between Fund governance and the institution's capacity to formulate strategy, while the second studies the relationship between Fund governance and the Fund's surveillance function. Randy Stone's paper is a summary of a larger study² on how the Fund's governance conditioned its capacity to serve as fire-fighter in managing several systemic crises over the past fifteen years.³

These papers looked at the Fund's governance system as a whole, tracing how the different elements and bodies work together when the institution performs its major functions. Through these papers, we get a clear sense of how the governing bodies of the Fund work together in what is at times a complex, iterative process among Management, the Board, and

²The larger study quotes extensively from interviews that were conducted with the understanding that they would not be disclosed.

³The governance of the Fund's non-crisis lending has been covered in several IEO evaluations, including *The IMF and Aid to Sub-Saharan Africa*, IEO, 2007, and *Structural Conditionality in IMF-Supported Programs*, IEO, 2007. The governance arrangements for the delivery of technical assistance are discussed in *IMF Technical Assistance*, IEO, 2005, and in M. Cortés, 2008, *The Governance of IMF Technical Assistance*, IEO, Background Paper (BP/08/13).

member country authorities. A key insight to emerge from these papers is how informal governance bodies and processes work alongside the Fund's formal governance arrangements as the Fund delivers its main outputs.

What We Have Learned: Main Messages

In the remainder of this introduction, we outline the three main conclusions that follow from the studies in this volume. First, to strengthen its legitimacy and effectiveness, the Fund needs greater, higher-level, and more transparent involvement of member country authorities in its governance. Second, the Board needs to play a stronger role in strategy development and oversight, which requires a shift away from the day-to-day business of the organization. Finally, there are significant accountability gaps that need to be addressed if the IMF is to remain effective and regain legitimacy.

Ministerial Guidance

Several studies in this volume deal explicitly with the role that country authorities at the ministerial level play in guiding the IMF, both through formal and informal structures and processes. The Fund has always needed ministerial-level guidance to legitimize its surveillance work, to approve and mobilize emergency financing that extends well beyond its own resources, and to ensure buy-in of Fund policies among the membership. Bossone shows how this need arises and how it is handled when designing strategies or performing surveillance, while Stone highlights the informal channels used by country authorities during regional and global crises. Yet, as illustrated in Abrams, Mountford, and Shakow, the Fund's members have been struggling for decades to find the right mechanism for this type of high-level political engagement.

The current arrangement for ministerial-level involvement at the Fund rests on two governance structures, the IMFC and the informal country groupings (the G's), neither of which is provided for in the Articles of Agreement. The IMFC evolved in the 1990s from the Interim Committee, an *ad hoc*, temporary, and advisory body created in the 1970s when the membership recognized that the Board of Governors had become too large to steer the organization. As the Bossone and Shakow papers show, the IMFC today is a useful event-forcing mechanism, one that compels ministers and/or governors to engage regularly with IMF issues, but it is also one with many shortcomings in terms of the quality of engagement, the legitimacy of its communiqués, the degree of voice and representation

it affords the membership, and most important the fact that it is only an advisory body without the formal authority to make decisions on behalf of the IMF or to hold Management or the institution accountable.

The second structure is the network of *ad hoc*, inter-governmental networks known as the “G’s.” These networks first emerged in the 1970s, and the most prominent of these, the G-7, eventually became the informal steering committee for the global economy and the key source of ministerial-level guidance for the Fund. Since its creation in 1999, the G-20 has become increasingly important. The emergence of the G’s can be interpreted as evidence of the limitations of the IMFC, and of the Fund’s formal structures as vehicles for ministerial-level guidance. The Board of Governors is too large and unwieldy, and the IMFC is perhaps also too large, and its composition not adequately reflective of the power structure of the global economy.

The trade-offs inherent in the existing structure are revealed clearly by the papers on leadership selection, surveillance, and crisis management. While the G’s, working alongside the IMFC, have provided flexibility and rapid decision-making, they also dilute accountability and create a legitimacy deficit. They exacerbate the opacity of key decision-making processes, such as leadership selection. The weaknesses in current practice that are exposed by these papers lend support to the IEO recommendation to activate a formal, decision-making ministerial Council, as provided for in the IMF Articles of Agreement.

The issue of ministerial-level guidance for the Fund has taken on new meaning in light of the ongoing dialogue about the reform of “global governance.” Key to this debate is whether the G-20 should replace the G-7/8 as the “world’s steering committee,” as seems to be occurring at least in the economic and financial arenas. In this context, the idea of the Council, suitably modified, could provide a more legitimate, more representative solution not only to the challenge of guiding the IMF, but also to the governance of the global economy.⁴

The Role of the Board

Most studies in this volume deal in one way or another with the role of the Executive Board. The Dalberg paper highlights the challenges faced in designing a board that can perform the multiple roles with which it is entrusted while remaining accountable and effective. Clark

⁴See *Global Governance Reform* by Colin Bradford and Johannes Linn, editors, Brookings Institution, 2007, and the Final Report of the Committee on IMF Governance Reform (also known as the Eminent Persons Committee), March 24, 2009.

and Chelsky and Campbell examine the tensions between the Board's executive role and its responsibility in fiduciary oversight. Martinez-Diaz discusses the four main roles that the IMF's Board is charged with: political counterweight (safeguarding the national interests of members), democratic forum (providing the whole membership with a voice), performance police (overseeing institutional performance), and strategic thinker (adapting the Fund to changing conditions). His paper points out that because of the trade-offs inherent in the current institutional design, the Board cannot be effective in all four roles and it concludes that currently the Board is relatively strong in its first two roles (i.e., political counterweight and democratic forum) but weak in the latter two (i.e., performance police and strategic thinker).

To strengthen its effectiveness in these two latter roles, the Board must rebalance its activities: it needs to delegate some of its executive responsibilities and play instead a stronger oversight role and focus on strategic decisions. The IEO governance evaluation ultimately recommended that this be done by delegation to committees of the Board and to Management.⁵ But these changes would not be easy to implement. Chelsky explains that a significant strengthening of the Board committees would be needed. Also, and perhaps more important, a clear framework for Management accountability would need to be put in place, as discussed below.

Martinez-Diaz and Chelsky's paper on summarizing the views of the Board show that the IMF Board performs well in its role as a democratic forum, at least by the standards of other international organizations. Yet, the quality of shareholder representation could be enhanced further. Currently, eight chairs (a third of the total) represent only one country each, leaving the other sixteen to each represent an average of more than ten countries. As a result, the Fund's Board (along with that of the World Bank) has the largest, most crowded, median constituency size of all the international organizations examined in the papers. This reduces the quality of participation by most of the Fund's members, especially by some of the poorest countries that have very intensive policy relationships with the Fund. Based on this finding, the IEO evaluation recommended abolishing the appointed chairs on the Board, opening the door to the eventual reconfiguration of the constituencies.

⁵See *Global Governance Reform* by Colin Bradford and Johannes Linn, editors, Brookings Institution, 2007, and the Final Report of the Committee on IMF Governance Reform (also known as the Eminent Persons Committee), March 24, 2009.

Accountability Framework

The third thread that runs through most papers relates to a problem common to all international organizations: identifying who should be held accountable by whom, for what, and through what means. The most important accountability gap is present at the level of Management. The opacity of the leadership selection process (discussed in this volume by David Peretz), the absence of performance standards for the Managing Director, and the overlap between the Board's and Management's lines of authority make holding Management accountable very difficult. While a decision-making committee of ministers would be well positioned to pass judgment on Management's performance, the IMFC's advisory status makes this difficult.

There are also accountability gaps at the Board level. Campbell argues that crafting and enforcing an adequate code of ethics for Executive Directors is a significant challenge because Executive Directors are sometimes conflicted in their "dual role" of representing their governments and at the same time acting as "officers of the Fund" in the best interest of the institution and its shareholders as a collective. In his piece, Stone documents how the tensions between their national and institutional interests due to their dual role affect Directors during systemic crises. Clearly, these tensions affect those directors appointed by a single country differently than those elected by a multi-country constituency. The absence of Board self-evaluation procedures as practiced in many private and public organizations, and of standardized job descriptions for members of the Executive Board, compound these accountability problems. Finally, as Chelsky and Clark show in their paper, the system in place for ensuring that there is accountability for the institution's financial management—a system for which the Board is ultimately responsible—has significant weaknesses.

Building on these findings, the IEO governance evaluation provided recommendations for creating a more solid accountability framework. It called for a reform of the leadership selection process; for the development of job descriptions for Board members; for the activation of the Council, which could assess some aspects of Managerial performance; for the introduction of Board self-evaluation procedures; and for the adoption of a formal evaluation process for the Managing Director.

Together, the papers in this volume constitute the most extensive study in the public domain on how IMF governance works in theory and practice. As the debate on global governance and IMF reform continues in the corridors of power and in the halls of academia, we hope that the papers

in this volume will help stimulate and advance the discussion. We also hope this volume will motivate scholars and policymakers to continue to study the Fund's governance arrangements and to propose new ways for strengthening this important global institution.

I

IMF Governance: Evolution and Comparisons

This page intentionally left blank

2

Governance of the International Monetary Fund

ALEXANDER MOUNTFORD

This paper describes the governance structure and practices of the International Monetary Fund as they relate to decision making, and chronicles the main changes in the structure since its founding. It outlines the distinguishing features of the three main decision-making organs (Board of Governors (and its advisory committees), Executive Board, and Management (including Managing Director, Deputies, and the staff of the Fund)) as established by the Fund's Articles of Agreement. It also discusses whether the present governance structure accords with the Articles and good standards of corporate governance.

Articles of Agreement

The Articles of Agreement are the Fund's constitution and establish the purposes of the Fund and provide for the activities and powers of the decision-making organs. The Articles embody a set of rules for the international monetary system, with rights and obligations for the member countries, and with the Fund as a kind of an arbiter. In joining the IMF, members cede part of their economic sovereignty to the Fund, and receive certain rights and benefits in return. Members' most important obligations are to pursue economic policies consistent with the IMF's purposes, and to collaborate with the Fund and other members to assure

orderly exchange rate arrangements and promote a stable system of exchange rates.

The Articles embody a combination of rules and discretion. Broadly, the original Articles put clear emphasis on firm rules, especially as regards exchange rates and the financial rights and obligations of members, and provided less room for discretion. The balance shifted markedly in the late 1970s, with the Second Amendment of the Articles, towards a system with fewer rules and greater reliance on principles, therefore providing substantially greater scope—and need—for the exercise of discretion, in particular by the Executive Board. This system, with only minor adaptations, is still in effect.

It was clear from the outset that the international monetary system, and the role of the Fund within that system, was not expected to be static or rigid. The governance provisions set out in the Articles of Agreement have therefore been adapted over time, by formal amendment, by interpretation, and by numerous decisions by the corporate organs, to give more precise meaning to principles so that they may be translated into practice. The system of governance has gradually and constantly been adapted to the requirements of a changing global environment.

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

The Articles have been formally amended three times; in 1969, to provide for the creation and allocation of special drawing rights (SDRs); in 1978, to give effect to the partial reform of the international monetary system;¹ and in 1992, to strengthen the Fund's power to impose sanctions—in particular by suspending voting rights—against members that persis-

¹This included the shift to increased discretion, an attempt to strengthen the degree of political oversight of the Fund by establishing a decision-making Council at the ministerial level (further discussed in this section), and an increase in the reliance on special majorities. Under the First Amendment of the Articles, 18 types of decisions were subject to special majorities. Because a subsequent *Outline of Reform* involved political compromises that were difficult to reach, the package of measures agreed to and embodied in the Second Amendment included an increase of some 39 additional types of decisions subject to a special majority.

tently fail to fulfill their obligations under the Articles. A proposed Fourth Amendment, to provide for a new allocation of SDRs, was approved by the Executive Board and the Board of Governors in 1997 but has not yet been ratified by the necessary majority of the members (three-fifths of the members and 85 percent of the total voting power).

Governance Organs of the Fund

The Fund operates as a system of peer pressure and persuasion under which member countries are encouraged to pursue sound economic policies (referred to as “surveillance”). In addition, the Fund has financial resources, provided by its members, which it may use to provide temporary balance of payments financing to members, generally on a conditional basis. This means that members should pursue economic policies to correct their economic imbalances in line with those recommended by their peers “. . . without resorting to measures destructive of national or international prosperity” (Article I(v)). The decision-making bodies comprising the governance structure of the Fund include the Board of Governors, the Executive Board, and Management.

Board of Governors

Composition and Membership

The membership of the IMF expanded dramatically in the early years, from an initial 29 countries in 1945 to 117 by 1970. The IMF has 185 members at present. Each is assigned a “quota” related to the size of its economy and other relevant factors. The quota is the major determinant of the number of votes that the member has in the institution, and it affects the size of the country’s financial subscription to the Fund and other aspects of the country’s financial relations with the institution. Individual members’ shares of total voting power varies widely: for example, as of January 2008, the United States has the largest share of votes (close to 17 percent); at the other extreme many small countries have few voting shares, whereby, for example, the 24 member countries that elect the Francophone African Executive Director together have only 1.41 percent of the total votes.

Each member country is entitled to appoint a governor to sit on the Board of Governors and an alternate governor (Article XII, Section 2(a)). In practice, almost all governors and alternate governors are ministers of

finance, governors of the central banks, or officials of similar standing and authority. The Board of Governors selects one of its members as chairman. He/she serves as chairman for a full year, starting at the end of one annual meeting and continuing through to the following annual meeting. The chairmanship has rotated among the regions of the world.

Powers of Governors

The Board of Governors is the ultimate authority of the Fund. Governors have two types of power: those explicitly conferred by the Articles of Agreement and a much larger number that are implied. *Explicit powers*, which may not be delegated, include: acceptance of new members and establishment of their quotas; suspension of membership; general and *ad hoc* increases in the quotas of existing members; and amendments to the Articles of Agreement. Governors have explicit powers to appoint or elect the executive directors. For the purposes of a regular election, they have the power to increase the number of executive directors, and they determine executive directors' remuneration and benefits. The Articles also specify the governors' role in cases where a member appeals an interpretation of the Articles made by the Executive Board.

All these types of decisions are likely to be sensitive and important, and their exercise is generally governed by the requirement of a special majority of either 70 percent or 85 percent of the total voting power in the Board of Governors, to ensure that decisions enjoy very broad support. In a matter that comes to a vote, a governor "shall be entitled to cast the number of votes allotted . . . to the member appointing him" (Article XII, Section 2(e)).

As for the *implied powers* of the governors, the Articles provide that all powers under the Agreement that are not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors (Article XII, Section 2(a)). They also provide that the Board of Governors may delegate to the Executive Board the authority to exercise any of these implied powers (Article 2(b)). In practice the governors have by a resolution adopted at the first annual meeting of the governors in 1946 delegated very broad powers, whose terms are now embodied in Section 15 of the By-Laws, to the executive directors.

Activities of Governors

The governors carry out their main roles during the annual meetings held jointly with those of the governors of the World Bank. The annual meetings provide an official forum for statements by the Chairman of the

Board of Governors, the MD of the IMF and the President of the World Bank, and governors on developments in their own countries, economic issues facing the global economy; and Fund policies. The meetings also provide a framework within which governors conduct their formal business and a framework for contacts with the international economic and financial community. The annual meetings are also the occasion around which most of the meetings of outside informal groups of officials (e.g., G-7, G-10, G-20, G-24) are clustered (see Annex for an explanation of these and other informal groupings and their impact on IMF decision making).

Governors may also take decisions without meeting, through a vote by mail, and they regularly decide on matters such as the pay and benefits of executive directors in this way. In addition, since 2002, governors have conducted the regular elections of executive directors by mail.

Advisory Committees of Board of Governors

The Board of Governors has the power to create advisory committees, under Article XII, Section 2(j). There are at present four such committees.

Interim Committee/International Monetary and Financial Committee

To strengthen political oversight of the Fund, it was recommended in 1974 by the Committee of Twenty to establish by amendment of the Articles of Agreement a permanent and representative Council to “supervise the management and adaptation of the monetary system . . . oversee the continuing operation of the adjustment process, and . . . deal with sudden disturbances which might threaten the system.”² As an “interim measure” pending establishment of the Council, the Board of Governors adopted a resolution (requiring only a 50 percent majority) to create the Interim Committee (IC). The IC was modeled on the Committee of Twenty and its mandate was similar to that of the proposed Council, including to “supervise the management and adaptation of the international monetary system . . .” and to “advise and report to the Board of Governors. . . .” However, unlike the Council, the IC was intended to be an advisory body only so as not to undermine the Executive Board’s decision-making powers.

The IC functioned essentially as the Fund’s main policy advisory body. Its composition was modeled on the same country constituencies

²For further explanation of the Committee of Twenty and the Council of Governors, see Abrams in this volume (“The IMF Council of Governors,” Chapter 3).

as the Executive Board, but at the level of ministers/governors; each member had the right to appoint seven associates to manage the needs of multi-country constituencies. It was envisaged initially that the IC might meet several times a year, but soon it fell into the practice of meeting only twice a year. As it was an advisory committee, there was no voting in the IC. It was provided that executive directors would prepare meetings of the IC.

The IC fulfilled the limited role assigned to it by the Board of Governors, but public concern about Fund governance was widespread and growing. By the late 1990s there was a widely-held view that the IC itself needed to be strengthened, and that there should be a heightened degree of political oversight of the Fund either by a revamped IC or some other means. Related strands of criticism contributed to the recognition of a need to re-examine the Fund's governance structure, and to an increased willingness by the Fund's governing bodies to discuss changes. As a result, the International Monetary and Financial Committee (IMFC) was established in 1999 by a Resolution of the Board of Governors to be a permanent committee as successor to the Interim Committee (IC).

The IMFC has 24 members, based on the same country distribution as the Executive Board. Each member may appoint up to seven advisors. The members are ministers of finance, governors of central banks, or others "of comparable rank." The Committee chooses one of its members as Chairman, for an unspecified period. In practice, the Chairmen of the IC and the IMFC have all been ministers of finance, and they have tended to continue as Chair for several years until they ceased to be minister of finance in their own country's government. This arrangement therefore differs from that for the chairmanship of the Board of Governors, which changes every year. The IMFC generally meets twice a year, in the spring and just before the annual meetings of the Boards of Governors in the fall. Its mandates include:

... supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;

... considering proposals by the executive directors to amend the Articles of Agreement; and

... dealing with sudden disturbances that might threaten the [international monetary] system. (Resolution 54-9, adopted September 30, 1999)

The IMFC, like the IC, receives and discusses reports from the Executive Board (and the MD) on the conduct of Fund business and on the most pressing issues facing the global economy and the international monetary system, and it provides reports on its deliberations to the Board of Governors. Because the IMFC is formally an advisory committee, it does not take decisions and does not vote. As with the IC, “in reporting [to the governors on the work of the IMFC] . . . the Chairman shall seek to establish a sense of the meeting [and] if there is no unanimous view all views shall be reported and the members holding such views shall be identified.” The IMFC’s communiqués are a primary source of information to the media and the public on the collective views of ministers on these issues and in practice, communiqués plays an important role in the establishing the Fund’s work program for the period ahead. The IMFC has, in practice, become the main source of ministerial-level advice, guidance, and feedback to the Executive Board on the main issues facing the Fund.

One important way in which the IMFC differs from the IC is that the IMFC has created a committee of senior civil servants (the “deputies”) which helps to prepare its meetings, a role formerly played exclusively by the Executive Board.

Development Committee

This committee (the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) advises the boards of governors of both the World Bank and IMF on development issues. It has operated since 1974, when it was established in tandem with the IC. Like the IC/IMFC, the Development Committee (DC) had/has 20 (IC)/24 (IMFC) members who are governors of the World Bank or the IMF, ministers, or persons of comparable rank. Its membership is more varied than that of the IMFC, as it usually includes a number of ministers with responsibilities in the area of development. There is also a slight difference from the IC/IMFC in that for two years the membership follows the constituency system of the World Bank, and for the next two years it follows the constituency system of the Fund. As with the IMFC, each member may appoint seven advisors.

The terms of reference of the DC are to oversee the development process, giving urgent attention to the problems of the least developed countries and those developing countries that are most seriously affected by balance of payments difficulties. The DC advises the governors of both institutions on critical development issues and on all aspects of the

transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment, and official development assistance. The DC makes suggestions on the implementation of its conclusions and reviews the progress made in implementing its suggestions.

As a consequence, the Fund's policies towards a wide range of issues relating to developing countries—including, for example, structural adjustment, debt relief, and poverty alleviation—have been considered both in the joint DC and in the IC/IMFC.

In recent years, the DC has functioned as a “mainly Bank” committee, although its agenda and deliberations usually also include matters relating to the Fund's operations and policies, and its communiqués embody ministerial-level advice and guidance on development issues to both the Fund and Bank executive boards.

Joint Committee on Remuneration of Executive Directors of the Fund and Bank

This standing committee of the two boards of governors is established each year to examine the role and activities of executive directors and alternates and to provide recommendations on their pay and benefits. These recommendations are then voted on by governors by mail. The Committee comprises the chairman of the Board of Governors for that year and two other members who are former governors or alternate governors of the Fund or the Bank or persons of similar standing.

Joint Procedures Committee

Also a joint body of the Bank and Fund Board of Governors, this Committee handles a range of procedural matters at the time of the annual meetings, to make the conduct of the meetings more efficient.

Executive Board

Size and Composition

The Executive Board (the Board) at present has 24 executive directors and is chaired by the MD in a non-voting capacity. The Chair formally would have a deciding vote in the case of a 50-50 split vote, but with weighted voting this split is a virtual impossibility. In practice, since 1992 there have been 24 executive directors: 5 appointed and 19 elected (Table 1). Five directors are appointed by the members with the largest quotas, and hence the largest shares in total votes. The remaining 19

directors are elected by the members who are not entitled to appoint a director—that is, at present, the other 180 member countries. Regular elections are held every two years; there are provisions for interim elections, if needed, and for by-elections if an elected director leaves during the course of his term.

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

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

Source: IMF, Secretary's Department.

¹Canada appointed an Executive Director under Article XII, Section 3(c).

²Italy appointed an Executive Director under Article XII, Section 3(c).

³Japan appointed an Executive Director upon becoming one of the five largest quota-holders with the effectiveness of its quota under the Fifth General Review.

⁴Saudi Arabia appointed an Executive Director under Article XII, Section 3(c).

⁵Saudi Arabia appointed an Executive Director under Article XII, Section 3(c).

The size of the Board has grown from 12 to the current 24, in parallel to growth in the membership. The average size of electing constituencies has risen from 5 countries per elected director at the first election in 1946 to more than 9 at present. There are major differences in size among the constituencies. At present, 3 members with relatively large quotas are in a position to elect an executive director by themselves (Russia, Saudi Arabia, and China). Two directors are elected by most of the African members, with constituencies of 21 and 24 countries, respectively.

The size of the Board is determined partly by the Articles and partly by a decision that is made by the Board of Governors, before each regular election, on the basis of a recommendation by the existing Board. In making its recommendation about the appropriate size of the Board, the Board considers the following broad principles:

the Fund has been guided by the objectives of ensuring that the size of the Executive Board will contribute to the effective dispatch of its business, that a desirable balance will be maintained in the composition of the Executive Board, and that the size of constituencies will not place undue burdens on executive directors and hinder the conduct of the business of the Board, that members will be as free as possible within the provisions of the Articles and the regulations for elections to form the constituencies of their choice, and that a relative equilibrium will be achieved in the voting power constituencies electing executive directors (IMF, 1976: 64).

The Articles of Agreement specify that there shall be 20 executive directors; but they also provide that the Board of Governors may, by an 85 percent majority, increase the number of executive directors to be elected on the occasion of a regular election. The election rules are quite complex but are intended to ensure a reasonable geographical balance in member countries' representation, and to facilitate the continuation of constituency arrangements that members have made among themselves and wish to preserve.

Executive directors are entitled to appoint one alternate director each and a number of advisors. This number varies according to the number of countries in each constituency, currently ranging from 7 for a director appointed by or elected by a single country, to 13 for a director elected by 20 or more countries. Although formally alternates and other staff are appointed by the executive director, in practice, selection is governed by agreements within each constituency.

Main Features of the Executive Board

Profile of Executive Directors

The executive directors serve on a full-time basis and are paid by the Fund.³ They are responsible for conducting the business of the Fund

³At the Bretton Woods conference, there was an active debate about whether the executive directors should be full-time and resident in Washington (as proposed by Harry Dexter White) or a part-time non-resident board composed of more senior individuals that would meet only a few times each year (as proposed by Keynes). The White model was chosen and provided for in the Articles.

(Article XII, Section 3(a)) and must “function in continuous session at the principal office of the Fund . . . and . . . meet as often as the work of the Fund may require” (Article XII, Section 3(g)).

The last in-depth study of executive directors by the Joint Committee on the Remuneration of Executive Directors and Alternates (2004) compared data at ten-year intervals (1984, 1994, and 2004) and showed that:

- The profile of executive directors had varied little over a 20-year period;
- Most executive directors held graduate degrees and many held doctoral degrees;
- Directors’ average age was 53.3 years, with a range of 35 to 76 years;
- Most executive directors had had extensive experience—on average about 20 years—before joining the Board, and had held senior positions in ministries of finance, economic affairs, treasuries, or central banks; and
- Typically, executive directors served on the Board for between two and four years.⁴ Many directors had preceded their term in office by a spell as an advisor or alternate.

The 2004 report also stressed that to fill executive director positions:

it will remain important to attract people with both strategic vision and expertise in a variety of areas. Given the dual function of executive directors as country representatives and as officers responsible for conducting the business of the institutions, they need to carry significant weight in their capitals to represent their countries adequately and, at the same time, to contribute effectively to the institutions’ consensus building culture. This is particularly important in view of the increasing role of other—national and supranational—bodies in shaping decisions on the international financial architecture.

Executive Directors’ Conduct

The expected conduct of executive directors is reflected in the Code of Conduct for Executive Directors. The Board has established an Ethics Committee, which is essentially a self-regulating body that operates on a confidential basis. It is composed of executive directors and chaired by an executive director (see Campbell, Chapter 10 in this volume); the Fund’s General Counsel serves as its Secretary. In addition to considering matters relating to the Code of Conduct, the Ethics Committee may, if so

⁴The average was somewhat higher (4.37 years) in 2004, when two exceptionally long-serving executive directors accounted for 26 years between them.

requested by executive directors, give guidance on ethical aspects of the conduct of their alternates, advisors, and assistants.

As with Fund senior staff, executive directors have subscribed to a system of annual financial disclosure and scrutiny of their personal investment information for the previous year by an independent outside body (the Fund's External Compliance Officer), who reports annually to the institution on his activities and findings.

Scope of the Board's Activities

The workload of the Board has expanded steadily, due both to the growth of membership and to the elaboration and development of the Fund's substantive role. The very broad reach of the Fund's responsibilities in relation to the international monetary system, and in providing economic advice and financial assistance to the membership, requires executive directors to stay abreast of all major developments in the global economy.

Who conducts the Fund's business? As noted above, the Executive Board exercises two types of powers—those that are conferred directly on it by the Articles of Agreement, and those that are delegated to it by the Board of Governors. Article XII, Section 3(a) provides that the Executive Board “shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors.” Therefore, wherever the Articles refer to powers of the IMF without attribution, they are understood as those exercised by the Executive Board. The Board, under the Chairmanship of the MD is the policy-making organ of the IMF, and is responsible for all lending decisions. Accordingly, a statement that “the Fund has decided” almost always means that “the Executive Board has decided.”

Article XII, Section 3(a) must be read, however, in conjunction with Article XII, Section 4(b), which indicates that “The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund. Subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund.” Accordingly, the responsibility for “conducting the business” of the Fund is shared between the Board and the MD. It may even be said that the Board, as a whole, has a dual role—as the decision-making body responsible for most formal decisions, and as a body with a supervisory role over the MD and, to a lesser extent, the staff.

To some observers it might seem impossible for the Board to properly fulfill both its oversight and decision-making functions. Nevertheless, it appears that the Board does fulfill its essential responsibility as a political

counterweight to the technical staff while ensuring that proposals will be approved by the broad membership. This point is further analyzed in the final section.

Executive Board Meetings

Executive directors are involved in almost every aspect of the Fund's activities, both informally in interactions with management and staff, and formally through meetings of the Board. They also play an important role in informing and advising their constituent governments on all aspects of the IMF's work. The bulk of an executive director's work is conducted in relation to formal Board meetings, including preparation and follow up. In 2005, the Board devoted 462 hours to formal Board and committee meetings, of which 196 hours (42 percent) were for country items, 107 hours (23 percent) for policy items, 22 hours (5 percent) for "multilateral surveillance," 16 hours (3.5 percent) for administrative items, and 40 hours (9 percent) for Board committees. The proportions have remained rather steady in recent years (Table 2).

The MD, Secretary, and executive directors have devised a variety of techniques to conduct their work:

- Management and the Board have established guidelines for staff, relating to the scope, coverage, length, and format of different types of papers that will be submitted to the Board for approval. Many papers, for example, will embody a brief executive summary, while bilateral surveillance papers will contain a staff appraisal that summarizes the main policy conclusions that the staff wishes to bring to the attention of the Board members.
- The chairing of meetings has been rotated between the MD and the deputy managing directors, so that if, for example, there are several separate agenda items on a particular Board day, there can be changes in the Chair.
- Similarly, executive directors may designate their alternates, senior advisors, or advisors to act for them for one or more agenda items, again allowing some rotation and reducing the burden of attendance.
- The Dean of the Board, who is the executive director who has served longest in office, has no formal standing, but has considerable informal influence over the conduct of Board business. For example, it is the Dean who chairs a Board meeting if for some reason it would be inappropriate for the MD or one of his DMDs to do so—for instance in a case of potential conflict of interest. In addition, the Secretary will consult the Dean on matters that may be politically sensitive—such as the composition and choice

of chair of Board committees. The Dean also periodically hosts informal working lunches of executive directors to air views on specific policy matters.

- The Secretary of the Fund serves as Secretary of the Board, as well as Secretary of the IMFC and of the Board of Governors. Because of his day-to-day work with individual Board members and with the Board as a group, he is often in a good position to be able to advise management—and individual Board members—on the views of the Board and on whether specific initiatives are likely to be supported or not.
- The practice of circulating preliminary texts of an executive director's comments (so-called “grays”) before a meeting has increased to such an extent that for many Board discussions, most directors have circulated comments in advance. This practice, while reducing the scope for spontaneous discussion, has reduced the time spent in Board meetings (Table 3) and it may help improve the accuracy of summaries of Board discussions (e.g., the Chairman's “summing up”).
- For broad policy issues and for administrative matters, the pattern of preparation and discussion is broadly similar but with one interesting difference. Some policy items are likely to require repeated Board discussions possibly over several months. Initial broad ideas are discussed and proposals are gradually refined through a process of consensus building. In such a case, instead of a formal summing up, the Chairman may deliver his “preliminary conclusions” as a means of keeping options open.
- The system of “summing up” of formal Board discussions has expanded. The Chair now usually delivers a summing up, even where the discussion is concluded by a formal decision. The summing up explains the context of the decision, and reflects a range of views, including those of minorities. For many types of discussion, the summing up has the legal force of a decision (see Chelsky, Chapter 8 in this volume).

A series of committees were created to help manage the Board's workload efficiently (see Chelsky, Chapter 7 in this volume). The Budget Committee and the Pension Committee are chaired by the MD or a DMD. All other committees are chaired by executive directors. They are: (1) Agenda and Procedures Committee, with responsibility to improve the handling of the Board's work program; (2) Committee on the IMF Annual Report; (3) The Committee on Executive Board Administrative

Table 2. Number and Hours of Executive Board Meetings, 2001–06

| | 2001 | | 2002 | | 2003 | | 2004 | | 2005 | | Jan–Apr 2005 | | Jan–Apr 2006 | |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|--------------|------------|--------------|------------|
| | Number | Hours | Number | Hours | Number | Hours | Number | Hours | Number | Hours | Number | Hours | Number | Hours |
| 1. Total for all country items | 191 | 350 | 199 | 345 | 208 | 326 | 208 | 267 | 195 | 196 | 70 | 73 | 69 | 67 |
| Of which: | | | | | | | | | | | | | | |
| Stand-alone Article IV | 85 | 134 | 87 | 138 | 94 | 144 | 93 | 106 | 98 | 86 | 33 | 28 | 35 | 32 |
| Combined Article IV/UFR | 42 | 83 | | | | | | | | | | | | |
| UFR | 64 | 133 | 66 | 123 | 86 | 130 | 87 | 122 | 60 | 67 | 23 | 28 | 23 | 25 |
| Policy Support Instrument | – | – | – | – | – | – | – | – | 1 | 2 | – | – | 2 | 2 |
| 2. Policy items | 49 | 113 | 59 | 127 | 56 | 115 | 52 | 86 | 67 | 107 | 23 | 36 | 15 | 27 |
| Of which: | | | | | | | | | | | | | | |
| Formal Board meetings | 42 | 97 | 51 | 109 | 45 | 87 | 36 | 59 | 47 | 74 | 14 | 22 | 13 | 23 |
| Formal seminars | 7 | 16 | | | | | | | | | | | | |
| Informal seminars | 0 | 0 | 0 | 0 | 7 | 20 | 9 | 16 | 10 | 19 | 4 | 8 | 0 | 0 |
| 3. Multilateral surveillance (GFSR, WEO, WEMD, regional) | 15 | 44 | 12 | 31 | 14 | 28 | 14 | 20 | 14 | 22 | 5 | 7 | 5 | 8 |
| 4. Informal meetings ¹ | 84 | 106 | 53 | 78 | 68 | 76 | 58 | 52 | 61 | 74 | 25 | 27 | 13 | 10 |
| Of which: | | | | | | | | | | | | | | |
| ECBR | – | – | – | – | – | – | – | – | 10 | 23 | 1 | 2 | 0 | 0 |
| 5. Committees | 22 | 32 | 21 | 32 | 17 | 28 | 30 | 40 | 31 | 40 | 12 | 15 | 5 | 9 |
| Subtotal, Items 1–5 | 361 | 644 | 344 | 611 | 363 | 572 | 362 | 465 | 368 | 440 | 135 | 158 | 107 | 121 |
| 6. Administrative items | n/a | n/a | 3 | 7 | 2 | 8 | 3 | 5 | 11 | 16 | 10 | 15 | 9 | 18 |
| Of which: | | | | | | | | | | | | | | |
| ECBR | – | – | – | – | – | – | – | – | 2 | 4 | 2 | 4 | 4 | 11 |
| 7. Other (e.g., reports on travel, farewells) ² | 40 | 20 | 41 | 16 | 57 | 16 | 88 | 16 | 71 | 6 | 24 | 2 | 28 | 4 |
| Grand total | 401 | 664 | 388 | 634 | 422 | 596 | 453 | 487 | 450 | 462 | 169 | 174 | 144 | 143 |

Source: IMF, Secretary's Department.

Note: Components may not sum to totals due to rounding.

¹Excludes informal policy seminars.

²Increase in 2004 due to inclusion of requests for waivers of circulation periods beginning November 2004.

Table 3. Grays and Average Length of Board Meetings, 1999–2006

| | Number of Items for Which Grays May Be Prepared ¹ | Percent Change from Previous Year | Board Hours for Which Grays May Be Prepared | Percent Change from Previous Year | Grays (Number) | Percent Change from Previous Year | Grays (Length in Pages) | Percent Change from Previous Year | Average Number of Grays Per Item | Average Length of Country Item (Hours) | Average Length of Policy Items (Hours) ² |
|-----------------|--|---|---|---|-------------------|---|-------------------------------|---|---|--|---|
| 1999 | 284 | – | 558 | – | 956 | – | 2,588 | – | 3.4 | 1.7 | 2.6 |
| 2000 | 276 | -3.0 | 608 | 9.0 | 1,078 | 13 | 2,846 | 10 | 3.9 | 1.9 | 3.0 |
| 2001 | 251 | -9.0 | 497 | -22.0 | 1,347 | 25 | 3,645 | 28 | 5.4 | 1.8 | 2.3 |
| 2002 | 270 | 8.0 | 502 | 1.0 | 1,690 | 26 | 4,763 | 31 | 6.3 | 1.7 | 2.1 |
| 2003 | 273 | 0.0 | 457 | -10.0 | 2,280 | 33 | 6,241 | 32 | 8.4 | 1.6 | 1.9 |
| 2004 | 265 | -2.9 | 356 | -22.1 | 3,077 | 35 | 7,466 | 20 | 11.6 | 1.3 | 1.7 |
| 2005 | 274 | 3.4 | 316 | -11.3 | 3,948 | 28 | 9,416 | 26 | 14.4 | 1.0 | 1.6 |
| Jan–Apr 2005 | 103 | 6.2 | 121 | -12.0 | 1,358 | 27 | 3,258 | 26 | 13.1 | 1.0 | 1.6 |
| Jan–Apr 2006 | 97 | -5.8 | 118 | -2.7 | 1,541 | 13 | 3,604 | 11 | 15.9 | 1.0 | 1.8 |

Source: IMF, Secretary's Department.

¹Includes country, policy, formal seminar, and multilateral surveillance, and administrative items. Excludes informal, stand-alone WEMD for 2004 and later.

²Includes formal policy Board meetings, formal policy seminars, and informal policy seminars.

Matters, which focuses on administrative matters relating to the executive directors and their alternates and staff; (4) Committee on Interpretation; (5) Evaluation Committee, which oversees the evaluation function in the Fund, including the work of the Independent Evaluation Office; (6) Ethics Committee; and (7) Committee on Liaison with the World Bank and Other International Organizations.

Decision Making in the Executive Board: An Emphasis on Consensus Building

From the outset, the IMF Executive Board placed a strong emphasis on decision making by consensus and on the maintenance of a collegial and cooperative spirit. Most decisions are taken without a vote and a culture of consensus seeking is a feature of the institution. In the rare cases in which a vote is called, an appointed executive director would cast “. . . the number of votes allotted under Article XII, Section 5 to the member appointing him” (Article XII, Section 3(i)(iii))—while an elected executive director would cast “the number of votes that counted toward his election” (Article XII, Section 3(i)(iii)). An elected director must cast all of his votes as a unit, and not split them, even if his constituents may have divergent views. Most decisions, if brought to a vote, require a 50 percent majority of the votes cast. This includes all decisions on the extension of financial assistance to a member.

As noted above, there are also provisions for special majorities. Special majorities are required only for decisions outside the ordinary business or activities, such as in the case of the creation of special drawing rights (SDRs) for which a new negotiating framework was devised through the First Amendment to the Articles. This article required that certain decisions receive 85 percent of the total voting power of the Board of Governors for adoption. The Second Amendment reduced the number of special majorities to two main ones, 70 percent and 85 percent of the total voting power. For these decisions, an abstention or a vote not cast has the same effect as a negative vote. In practice, most of the issues that call for a special majority have been decided without a formal vote, although Board members and the Chairman know what the outcome would be if a formal vote were called, and the Secretary keeps an informal count of the vote. Any Board member may call for a formal vote, but this rarely occurs.

Board and Fund Transparency

As late as the mid-1990s, the Fund still placed considerable emphasis on maintaining its confidential role as an advisor to member countries to such an extent that it had developed a reputation for excessive secrecy. Part of the Fund’s response to criticism of its governance was to increase

the transparency of the institution and expand outreach activities. Over the past decade the Fund has become a more open institution, including by publishing many types of reports that hitherto were treated as confidential such as staff papers prepared for Board consideration and Public Information Notices and gradually liberalizing public access to the Fund's archives, including to Executive Board minutes (although with a significant time lag intended to protect the confidentiality of Board discussions). In marked contrast to a few years ago, when public appearances by executive directors were rare, executive directors now grant interviews to the media, meet representatives of civil society, participate in conferences on issues relating to the Fund's work, and meet groups of parliamentarians from their constituent member countries.

Managing Director and Staff

Managing Director

The Articles of Agreement say very little about the MD, beyond providing that he is to be selected by the Executive Board (Article XII, Section 4) and is its Chair. His remuneration and benefits are decided by the Board of Governors (see Peretz, Chapter 11 in this volume). In addition, in establishing the powers of the MD, the Articles provide that "The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund. Subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund" (Article XII, Section 4(b)). In practice, the role of the MD has been shaped by the Fund's response to new challenges in the world economy and by the personal qualities of the individuals who have held the office. The MD's dual role as Chairman of the Executive Board and as head of the technical staff gives him the initiative in proposing to the Board all the major policies of the Fund, and their individual application to member countries, in particular as regards bilateral and multilateral surveillance and use of the Fund's financial resources.

Individual MDs have gained considerable visibility, influence, and authority beyond what would necessarily result from the brief description of powers and responsibilities in the Articles. According to a former Secretary of the Board, "Through his visits to member countries and contacts with ministers, central bank governors, and high officials of members and international bodies, the MD operates continuously at the political level while he is at the same time Chairman of the Executive Board and

head of the staff” (Van Houtven, 2002: 16). In addition, in his participation at meetings of the G-7/8, G 10, and G-24, etc., the MD provides of a global perspective on the world economy. Finally, the MD is the main public face of the Fund.

Deputy Managing Directors

Since the early days of the Fund, the MD has appointed a Deputy Managing Director (DMD). The practice has been that the DMD is a U.S. citizen. Since 1994, there have been three DMD positions; the First Deputy MD has been a U.S. citizen while the other two positions have been filled by staff from other countries. At present, one is Japanese and the other is from Brazil.

IMF Staff

The staff of the Fund has been described as “a highly structured, hierarchical, and homogeneous meritocracy” (Van Houtven, 2002). Numbering about 2,630 at end 2007, it is composed mainly of economists but spans a wide range of other professional skills. Staff members are appointed, and may be dismissed, by the MD. Like the MD himself, staff in the discharge of their functions “shall owe their duty entirely to the Fund and to no national authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of these functions.” (Article XII, Section 4(c)). The staff, under the direction of the MD, performs a wide range of preparatory work for the consideration and approval of the Board—including surveillance, use of Fund resources (UFR), and policy development. In all cases, however, the Executive Board retains the final decision-making authority.

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

This section raises some issues with respect to the present system of Fund governance, from two main perspectives:

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

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

Board of Governors

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

International Monetary and Financial Committee

The IC/IMFC has evolved into the most important policy committee of the IMF and is, in practice, the main source of ministerial-level advice, guidance, and feedback to the Executive Board. It also appears to have taken an initiative in proposing policy changes, with less inclination to merely respond to proposals and initiatives originating from management and the Board. The IMFC has discussed, influenced, and endorsed every major initiative that the Fund has taken since it was established. Although formally an advisory committee, in practice, its communiqués play an important role in the establishing the Fund's work program for the period ahead; and its communiqués are now among the most important public pronouncements at ministerial level on all key matters relating to IMF policies and operations and the problems of the world economy more generally.

Has this evolution of the IMFC been consistent with good governance? One would like to say yes—because the Committee's role has evolved in response to the practical needs of the Fund for political guidance, because it has filled a perceived gap, because the Committee has manifestly proved a very useful institution, and because the Board of Governors has implicitly acquiesced to these committees fulfilling over a period of three decades some of the major elements of the governance role that formally belong to the Board of Governors.

This said, some observers may perceive a governance issue if they believe that the IMFC has, *de facto*, become a decision-making rather than an advisory body. The Board of Governors can appoint an advisory

committee, on the basis of a resolution alone (requiring a 50 percent majority) but to create a decision-making committee would require either an amendment of the Articles (by an 85 percent majority) or the creation of the Council itself (also requiring an 85 percent majority). Thus, allowing the IMFC to assume a role that amounts to a decision-making one is a circumvention of the Articles.

Other Committees of the Board of Governors

The Development Committee has followed a parallel evolution to that of the IC/IMFC, with the difference that it is a joint committee of the IMF and the World Bank and has become in practice a “mainly Bank” institution. The other two joint committees are relatively uncontroversial. The Joint Procedures Committee has proved its usefulness in handling procedural issues. Similarly, the JCR Committee has fulfilled its limited specific role in advising the governors on the pay and benefits of the executive directors.

Executive Board

Over the years, the Fund has developed work practices that, in effect, have the staff and management doing much of the preparatory work in a number of key areas—surveillance, policy development, and UFR. An issue of some importance, therefore, is whether the Board has effectively retained its powers of decision-making or, to put it crudely, has it become a rubber stamp that merely endorses the proposals formulated by staff and supported by management? Views on this issue differ widely, even among insiders. It is useful in discussing this issue to differentiate between surveillance cases (especially bilateral surveillance) and situations involving the use of Fund financial resources.

Surveillance

The typical pattern of work on bilateral surveillance (e.g., Article IV consultations) involves extensive preparatory analytical work by the staff, culminating in a visit to the country concerned to hold discussions with the authorities and other stakeholders. The mission will typically conclude its talks by delivering a statement to the authorities, giving its preliminary views on the economy and policies, and making recommendations. For most countries, this is the time when the consultation process has its biggest impact—

when there can be an exchange of views with the country's policymakers, based on the most up-to-date assessment by the staff experts.

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

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

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

Use of Fund Resources

The feeling of some observers that in practice the Executive Board is a mere "rubber stamp" for decisions that are really taken at the level of staff or management is expressed most strongly with respect to transactions involving a member's use of Fund resources. This is fostered by the fact that the Board rarely if ever rejects a proposal from Fund management for a program with a member country. There are two overlapping reasons for this.

First, there is a long-standing recognition, established in the early days of the Fund, that it is more efficient for the Fund to have the staff, under the control of management, conduct the discussions and negotiations with the member country, though subject to detailed guidelines approved by the Board. The view is also held in the Board that it would be improper for the Board—and unfair to the member country concerned—to reject a program that has already been the subject of perhaps lengthy and detailed

negotiation between the staff and the authorities. This principle, known as the Kafka rule, named after a former executive director for Brazil who enunciated it, is an informal convention, but one that has been followed for a long time. It is understood that, if executive directors do not like a particular feature of a country program, they will explain why and the management/staff will take this view into account in future cases.

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

The Chain of Accountability

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

- The staff members are directly accountable to the MD, who manages their work under the “general control” of the Board.
- The DMDs are appointed by the MD and accountable directly to him.
- The MD is directly accountable to the Executive Board. Although the Board, on a day-to-day basis, does supervise and critique the work of the MD (and the staff), the Board has not yet developed a formal or methodical procedure for regularly holding the MD accountable. This is a clear weakness in governance. If the Board does develop such a procedure, it would be appropriate to extend it to the DMDs.
- The accountability of executive directors must be assessed in terms of both their individual accountability and that of the Executive Board as a body.
- Executive directors individually are accountable to the governors who appoint or elect them. There do not appear to be any formal mechanisms for holding individual directors accountable. If this is considered to be a weakness, it would be for the governors to decide on a suitable mechanism.
- Executive directors as a group are in principle accountable to the Board of Governors as a body. Governors at present have no formal mechanism with which to assess this accountability. This is clearly

a weakness, which could be addressed by the governors establishing a separate committee for this function, or by adapting the mandate and membership of an existing committee of the governors (e.g., the JCR) to hold the executive directors more accountable.

- The governors are accountable to their own governments, in accordance with each country's own arrangements.
- In addition to this chain of formal accountability, all the constituent elements of the Fund are, increasingly, being held accountable to public opinion and civil society organizations. The issue of accountability lay behind the proposals made by former Managing Director, Michel Camdessus, in 2000, to replace the advisory IMFC by the decision-making Council, as an organ that would occupy an intermediate position between the Board of Governors and the Executive Board. The Council would, he proposed, be responsible for deciding on the major strategic issues facing the Fund. This would, he proposed, ensure that “the Fund is seen more visibly to have legitimate political support of our shareholders.” This would improve the Fund's public accountability because, as he stated, “The problem is not that we are not accountable, but that we are not seen to be accountable, and that some member governments from time to time find it convenient not to express their public support for actions they have supported in the Executive Board.”

Annex. Informal Groups Outside the Fund

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

Group of Ten and General Arrangements to Borrow

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

The initial impetus for the formation of this group was recognition that the financial resources of the IMF in the early 1960s would be inadequate if the IMF were to face a need to extend substantial amounts of financial assistance to a major country that was an issuer of a reserve currency, such as the U.S. or the U.K. For this purpose, a group of ten countries (Canada, France, Germany, Italy, Japan, U.K., U.S., and other European countries), and with the addition of Switzerland in 1964 the ten becoming eleven, entered into an agreement among themselves and with the Fund to create the General Arrangements to Borrow (GAB). The GAB allowed the IMF, in specified situations and subject to the agreement of the G-10 members, to borrow substantial amounts in order to finance, for example, a stand-by arrangement with a major industrial country.⁵

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

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

The developing countries were particularly concerned that a new ideology of cooperation among the industrial countries was replacing the universal aspirations of Bretton Woods. They were also upset that the GAB was set up in such a way that there was a “double lock” on IMF resources,

⁵The GAB were subsequently activated on a number of occasions, for example, to help finance substantial drawings from the Fund by the U.K., France, and Italy, and are still in effect.

namely that, in addition to a decision by the Executive Board, the G-10 would decide (at the ministerial level) on any Fund stand-by arrangement that included GAB financing. It was in reaction to the activities of the G-10 that the developing countries subsequently formed their own groups—first the G-77 within the United Nations and then, as a subgroup of the G-77, the G-24 within the context of the IMF and World Bank—to discuss international economic issues and develop common positions.

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

Group of Five and Group of Seven

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

Group of Twenty

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

promote cooperation to achieve stable and sustainable world growth that benefits all.”⁶

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

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

Financial Stability Forum

Also created on the initiative of the G-7 in 1999, the Financial Stability Forum (FSF) has the mandate to promote global financial stability, so that its mandate also overlaps significantly with that of the IMF. The Forum meets twice a year. The members include the international regulators and supervisory groupings in the fields of banking, securities, and insurance of the member countries, plus the IMF, World Bank, and OECD, plus two technical experts. Together with the World Bank, the Fund cooperates with the FSF through the preparation of financial sector assessment programs for member countries. The head of the Bank for International Settlements (BIS) chairs the FSF in a personal capacity, and a small secretariat is based at the BIS.

References

- Boughton, James, 2000, *Silent Revolution: The International Monetary Fund, 1979–89* (Washington: International Monetary Fund).
- Bradford, Colin I., Jr., and Johannes F. Linn, eds., 2007, *Global Governance Reform: Breaking the Stalemate* (Washington: Brookings Institution).

⁶G-7 Communiqué, September 1999. In fact, the origins of this new steering committee were somewhat complex. Starting as the G-22 or “Willard Group” in November 1997, it was superseded in early 1999 with an expanded membership to become the Group of 33, which in turn was superseded later in 1999 by the G-20.

- Camdessus, Michel, 2005, "International Financial Institutions: Dealing with New Global Challenges," Per Jacobsson Foundation Lecture, September, Washington.
- de Vries, Margaret Garritsen, 1976, *The International Monetary Fund, 1966–1971: The System Under Stress*, Vol. I: Narrative; Vol. II: Documents (Washington: International Monetary Fund).
- , 1985, *The International Monetary Fund, 1972–1978: Cooperation on Trial*, Vols. I and II, Narrative and Analysis; Vol. III: Documents (Washington: International Monetary Fund).
- Dodge, David, 2006, "The Evolving International Monetary Order and the Need for an Evolving IMF," Lecture to Woodrow Wilson School of Public and International Affairs, Princeton University, Princeton, New Jersey.
- Gianviti, F., 1999, "Decision Making in the International Monetary Fund" in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).
- High-Level Panel on IMF Board Accountability, 2007, "Key Findings and Recommendations," April 10. New Rules for Global Finance. Available via the Internet: www.new-rules.org/imfbdaccountability.htm.
- Horsefield, J. Keith, ed., 1969, *The International Monetary Fund, 1945–1965: Twenty Years of International Monetary Cooperation*, Vol. I: Chronicle; Vol. II: Analysis, by Margaret Garritsen de Vries and J. Keith Horsefield, with collaboration of others; Vol. III, Documents (Washington: International Monetary Fund).
- International Monetary Fund, 1976, *Summary Proceedings, Supplement: Proposed Second Amendment* (Washington).
- , 1993, "Articles of Agreement" (Washington).
- James, Harold, 1996, *International Monetary Cooperation Since Bretton Woods* (Washington: International Monetary Fund; New York and Oxford: Oxford University Press).
- Joint Committee on the Remuneration of Executive Directors, 2004, "Report to the Boards of Governors of the IMF and the World Bank" (Washington: International Monetary Fund).
- King, Mervyn, 2006, "Reform of the International Monetary Fund," speech delivered to the Indian Council for Research on International Economic Relations, New Delhi.
- Portugal, Murilo, 2005, "Improving IMF Governance and Increasing the Influence of Developing Countries," G-24 Technical Group Meeting, March 17–18, Manila. Available via the Internet: www.G-24.org/Portugal.pdf.
- Solomon, Robert, 1982, *The International Monetary System, 1945–1981* (New York: Harper and Row).
- , 1999, *Money on the Move: The Revolution in International Finance Since 1980* (Princeton, New Jersey: Princeton University Press).
- Van Houtven, L. 2002, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*, IMF Pamphlet Series No. 53 (Washington: International Monetary Fund).

3

The IMF Council of Governors

ALISA ABRAMS

This paper summarizes discussions that have taken place over the past 40 years regarding the creation of a Council of Governors within the IMF. The proposed Council would have decision-making authority and serve as a permanent organ of the Fund. The Fund's Articles of Agreement establish that a special majority of 85 percent of the membership's voting power is required to activate the Council, but this has not yet occurred. The paper presents the main themes and areas of concern in past debates, and it highlights issues that warrant further consideration if discussions on activating the Council are renewed. The paper does not take a position on the establishment of the Council.

Introduction¹

This paper summarizes discussions that have occurred over the past 40 years regarding the creation of a Council of Governors (hereinafter

The author wishes to thank Leonardo Martinez-Diaz and Rachel Weaving for editorial comments.

¹The evidence for this paper is based upon primary research from internal sources including minutes of Fund Executive Board meetings and related background documents from 1966 to 2009; Summary Proceedings of the Annual Meetings of the Board of Governors from 1971 to 1980; Fund Communiqués; and Documents of the Committee of Twenty. Other references include volumes by Fund historians Margaret Garritsen de Vries and James Boughton, and numerous publications by the Fund's former General Counsel Joseph Gold.

referred to as the Council). The proposed Council would serve as a high-level political decision-making body and a permanent organ of the institution. This paper aims to present the history of the debates and context so as to better recognize and understand these themes.

Authority for the establishment of the Council is enshrined in the Fund's Articles of Agreement (Art. XII, Section 1). The Council's proposed composition and processes have been largely determined, although some important issues remain unresolved. To establish the Council would require a special majority of 85 percent of the membership's voting power. To date, the Council has not been activated.

Discussions within the IMF surrounding the creation of a Council of Governors have occurred in four phases, corresponding roughly with: (1) responses to the international liquidity crisis of the 1960s and the need to reform the international monetary system (1969–74); (2) development of the Second Amendment to the IMF Articles of Agreement and an increased focus on surveillance (1974–80); (3) the post-Asian financial crisis period and attempts to strengthen decision making regarding the international monetary and financial system (1998–99); and (4) efforts to reform the institution's governance system amid renewed concern regarding the Fund's legitimacy (2008). Over the years, the two main rationales expressed for the establishment of the Council have been: (1) to enhance the IMF's legitimacy as the center of decision making regarding the international monetary system; and (2) to guarantee the representation of all Fund members in such decision making.

Some country positions and the leading proponents or opponents have not changed over the decades, while the positions of some other countries have shifted. For example, the U.S. supported establishment of the Council in the 1970s and was a leading advocate in the 1980s, while in the late 1990s the main champion was France. Other countries from among developed, developing, and emerging nations have held varying views on the Council throughout the years.

While the debate and context surrounding Council discussions may have evolved over the past 40 years, they have featured the same recurrent themes. Arguments for the Council include the inability of the Board of Governors to act effectively as the locus of decision making on the international monetary system. The arguments offered by various stakeholders against the creation of the Council include the belief that it would diminish the authority of the Executive Board, as well as the unwillingness of some members to support the creation of a high-level decision-making body in the context of multilateral surveillance. Over the decades, discussions have ranged from consideration of a temporary, *ad hoc* advisory committee to a permanent

decision-making body; and the Fund has moved, in practice, from creating a committee to advise on reform of the international monetary system to an advisory body that is charged with supervising the management and adaptation of the international monetary and financial system.

This paper aims to present the history of the debates and context so as to better recognize and understand these themes. Box 1 shows the main milestones in the discussions within the Fund relevant to the Council proposal over the past 40 years. Following this introduction, the next section lays out the positions expressed over the years by various countries and constituencies regarding the creation of the Council. The third section concludes the paper. The paper does not take a position on the establishment of the Council.

Box 1. Key Events Within the Fund on the History of the Council Proposal

Phase 1: International Monetary Reform and the Committee of Twenty (1969–74)

| | |
|-----------------|--|
| 1969 | Several Executive Directors express interest in establishment of a committee to advise the IMF Board of Governors on issues affecting the international monetary system. |
| 1971 | Following the collapse of the Bretton Woods system of fixed exchange rates, the Board of Governors calls on the Executive Board to advise on reform of the international monetary system. |
| 1972 July | Board of Governors establishes the advisory Ad Hoc Committee on Reform of the International Monetary System and Related Issues (C-XX). |
| 1973 October | Reviewing the Committee's progress, Governors call for the Fund to be more involved in management and decision making regarding the international monetary system, and for the Fund to strengthen its systems. |
| 1974 January | The C-XX Rome Communiqué calls for establishment of a permanent and representative Council of Governors. |
| 1974 June | C-XX Outline of Reform calls for the establishment of an Interim Committee to supervise the management and adaptation of international monetary system, pending the establishment of the Council. |

Phase 2: Interim Committee, the Second Amendment, and the Focus on Surveillance (1974–80)

| | |
|-----------------|--|
| 1974 July | Executive Directors begin consideration of composite resolution for reform of the international monetary system, including the establishment of a permanent Council. |
| 1974 October | Board of Governors establishes the Interim Committee of the Governors of the IMF, which succeeds the C-XX. They also request the Executive Directors to prepare draft amendments to the Articles of Agreement for the reform of the international monetary system, including the establishment of a permanent Council. |
| 1976 October | Board of Governors adopts the Second Amendment to the IMF Articles of Agreement, including the enabling authority for establishing the Council. |

| Box 1 (concluded) | |
|--|--|
| 1978–80 | The United States attempts unsuccessfully to create the Council, to strengthen the Fund’s surveillance powers. |
| Phase 3: Strengthening and Transforming the Interim Committee (1998–99) | |
| 1998 October | The IMF Governor for France revives the Council proposal, supported by two other Fund Governors and the Managing Director. The Interim Committee mandates the Executive Board to study the Committee’s strengthening and/or transformation. |
| 1999 April | The Interim Committee asks Deputies and Executive Directors to explore the scope for institutional improvements, including to the IC. |
| 1999 September | The Executive Board advances a resolution without recommending establishment of the Council. Board of Governors transforms the Interim Committee into the International Monetary and Financial Committee, extending the IC’s jurisdiction to cover the global financial system and strengthening its role as the permanent advisory committee to the Board of Governors. |
| Phase 4: Governance Reform (2008) | |
| 2008 April | Board of Governors adopts quota and voice reforms, including revision of the quota formula and enabling African constituency EDs to appoint an additional Alternate Director. |
| 2008 May | IMF Independent Evaluation Office evaluation on IMF Governance recommends establishment of the Council as part of a package of broader governance reforms. |
| 2008 Summer | An Executive Directors’ Working Group develops and approves a work plan in response to the evaluation but with no proposed follow-up on the Council recommendation. |
| 2008 October | Three Governors note their position regarding the Council, but without further discussion. |

Positions

This section describes the various positions expressed by Fund member authorities and Executive Directors over the past 40 years in connection with the establishment of the Council and related advisory bodies.

Backdrop: Events Prior to 1969

Even before 1969, there were discussions about creating a committee of governors. Concerned about how to deal with an international liquidity crisis, in May 1966 the Group of Ten (G-10) considered the creation of a special advisory committee to be established by the Governors of the Fund. The group’s view was that an advisory committee “could be asked to work out a specific plan for deliberate reserve creation for subsequent

decision by the Board of Governors.” A U.S. variant of this proposal recommended that the committee comprise Governors or Deputies of 20 countries, including the G-10 and 10 other countries. Instead, the G-10 recommended a series of joint meetings between G-10 Deputies and the Executive Directors.

A number of non-G-10 countries were not in favor of suggested joint meetings because they believed they would be relegated to a subordinate negotiating position. They emphasized the need for a fully representative IMF to remain at the center of decision making regarding the international monetary system. While conveying the dissenting views, the Managing Director endorsed the start of informal joint meetings, which were subsequently approved by the Executive Board. Joint meetings began in October 1966 and continued through 1967.²

Phase One: International Monetary Reform and Committee of Twenty (1969–74)

In 1969, a number of Fund Executive Directors “expressed interest in the idea that the Board of Governors should establish an advisory committee to consider issues affecting the international monetary system.” The Legal Department prepared a discussion paper outlining previous practices concerning committees, but no Executive Board action was taken at that time.

Following the collapse of the par value system in 1971, the Board of Governors called upon the Executive Directors to report on measures necessary or desirable to reform the international monetary system. The EDs reviewed the discussion paper and other plan outlines prepared by staff. In 1972, they advanced to the Board of Governors a resolution to create the Committee of Twenty (C-XX) as “a new forum at a high policymaking level in which further progress can be made on major policy issues relating to international monetary reform.” The remainder of this section discusses how Fund members viewed the rationale for the creation of the C-XX; and it illustrates the range of positions taken on the Committee’s terms of reference, whether the Committee should be a permanent body, and operational considerations such as composition, size, and voting.

Rationale. Directors most often cited two rationales for the creation of a Committee of Governors. One was “to ensure a fair representation of

²Mr. Saad, the Egyptian Executive Director, did not attend these meetings.

Fund members,” as many Governors from non-G-10 countries believed that such a committee would provide a more balanced representation of their interests than the G-10. The other rationale was that “the Fund should remain the center of the international monetary system”—a prevailing sentiment that has since been echoed repeatedly in Executive Board and ministerial discussions regarding the C-XX and the Council. During these initial discussions, the Nordic ED stated that the “erosion of the authority of the Fund and of the Executive Board was reflected in the many activities taking place outside the Fund. The main reason for such activities was the fact that the Executive Board did not carry much political weight.” Accordingly, he noted that “the task of reforming the international monetary system required a body to resolve the political conflicts that would arise.” Related to this view was the need to establish “a Committee of Governors that would help bring back to the Fund the capacity to take decisions on international monetary problems,” as expressed by the Vietnamese Alternate ED.

Positions taken. There was broad consensus among the Executive Directors in favor of creation of the Committee of Twenty. Directors formally met five times in June 1972 to discuss the creation of the C-XX. A number of Directors or constituency authorities had supported the formation of a Committee of Governors for many years prior to the introduction of the draft resolution on the C-XX. They included the chairs from Brazil, Republic of China, France, Kenya, India, Italy, the U.K., and most countries in the Chilean constituency. Directors of a number of other constituencies expressed support for the establishment of a committee when the resolution was initially introduced in the Executive Board: Australia, Belgium, Germany, the Netherlands, Norway, and the U.S. On the other hand, there was opposition from some EDs, most notably from the Egyptian ED who, along with the Indonesian ED, believed that discussions on monetary reform should take place at the Executive Board. The Indonesian ED noted that he would support the creation of a Committee of Governors as a second-best solution. Additionally, some constituencies were split. Among the Australian constituency, New Zealand expressed reservations, as did the Irish authorities within the Canadian constituency. The French ED was against the final resolution.

The terms of reference for the proposed committee were among the most controversial elements of the resolution. Considerable time was spent discussing whether the committee should focus only on international monetary reform or also on other aspects of international economic cooperation. Some believed that such issues are related and difficult to dissociate, while others believed that monetary matters should be kept

separate from matters of the general structure of the balance of payments or trade arrangements. At the urging of the G-77, the proposed terms of reference also noted the importance of the inter-relationship between the international monetary system and development objectives, capital flows and investment, and trade arrangements. France and New Zealand were in favor of limiting the terms of reference, and the U.S. was in favor of broader terms of reference. The Indian ED was not satisfied with the terms of reference. The French ED withheld support for the resolution because of disagreements over the terms of reference.

Opinions also differed regarding whether a committee should be *ad hoc* or permanent. The resolution as drafted by staff provided for a permanent committee. Some authorities and Directors believed that reform of the international monetary system could be resolved relatively quickly and that a permanent committee would not be needed. Others supported a permanent ministerial-level body within the framework of the Fund. The Kenyan ED thought there was “still a need for a permanent committee to provide political leverage in periods of crisis.” The Brazilian ED underscored that the need for such a committee was overdue and stated: “If such a Committee, established, say, to discuss the question of special drawing rights, had been in existence in August 1971, it might have been very useful.”

Many issues that were agreed when the C-XX was created continued to be relevant with regard to the Council. Such issues included operational considerations (e.g., committee membership, size, and composition) and the role of Executive Directors, Deputies, and advisors. Some EDs expressed a preference for keeping Committee membership open only to Governors. Others pointed out, however, that such a stipulation might not be feasible since some Governors (e.g., heads of central banks) did not carry much political weight. It was agreed that members would include governors, ministers, or others of comparable rank. Although the resolution was silent about the Chair, the C-XX chair was a Fund Governor from the Committee. Some EDs were concerned regarding possible erosion of the Executive Board’s authority, and about potential conflicts between the Executive Board, on one hand, and the Committee and Deputies, on the other. There was extensive discussion about EDs’ attendance and participation at meetings of the Deputies. The Alternate ED for Italy thought that EDs’ participation would help avoid “a further blow to the already shaken prestige of the Executive Board.” The Indonesian chair believed that EDs’ participation would “substantially contribute to the expeditious working of the Committee”; and the Venezuelan chair added that the ED was the only person who was elected by all countries in the constituency, while he believed that Deputies’ views would reflect their responsibility

to only one country. Ultimately, the Board resolution supported EDs' participation at Deputies' meetings. Many authorities were concerned that including advisors would cause Deputies' meetings to become too large to operate efficiently; but it was acknowledged that advisors would help provide better representation for multi-country constituencies. The Kenyan ED noted that most of his authorities preferred to have as compact a committee as possible.

The issue of voting in the Committee was discussed from the start. The initial draft resolution for the establishment of the C-XX stated that the Chairman of the Committee would be expected to "establish the sense of the meeting." The U.S. proposed an amendment related to SDRs to allow weighted voting in cases where the Chairman could not establish the sense of the meeting. The Kenyan ED was opposed because he believed that weighted voting would give veto power to economically stronger countries. The Indonesian and the Canadian EDs pointed out that since the Committee was to be an advisory body, voting would be carried out by the Board of Governors. The General Counsel also noted that it was not permitted. While weighted voting was not a possibility for the Committee, the debate marked the first time that split voting was mentioned. The Alternate ED for Italy pointed out that weighted voting might require split voting because, for instance, not all in his constituency would vote with the Common Market. Years later, split voting became a feature of the proposed Council—unlike in the Executive Board where Directors must vote en bloc on behalf of their constituency.

Effectiveness of the Committee of Twenty

In June 1972 the Executive Board transmitted, and in July 1972 the Board of Governors approved, a resolution to create a high-level temporary body to advise on international monetary system reform.³ The Committee of Twenty would comprise 20 principals (based on the Executive Board constituencies), as well as per country not more than two deputies, two associates, and a number of advisors to be determined by the Committee. When the Governors met two months later in September 1972, they expressed overwhelming support for the newly established Committee. Many welcomed it as a forum that would enable the entire membership, both developed and developing countries, to participate in reform of the international monetary system, as well as one that would restore the Fund

³A handful of country votes could not be recorded due to technical difficulties. No votes were cast against the resolution. The only abstention was Algeria (SM/72/122, Supplement 4, July 27, 1972).

as the locus of decision making on the international monetary system. The Governor for India recounted that throughout the previous year's crisis, "decisions on international monetary matters were being taken by a small group of countries and that this disturbing tendency was having a very adverse impact on the image and effectiveness of the Fund." He expressed the hope for "an end of the dangerous trend, so much in evidence in the recent past, to treat the International Monetary Fund as a merely a forum for ratifying what has already been settled among a few important members." With the creation of the new high-level body, a number of Governors heralded the return of the Fund as the central forum for consideration of international monetary reform (Egypt; Indonesia; Ireland; Jamaica, on behalf of The Bahamas, Barbados, Jamaica, and Trinidad and Tobago; New Zealand; and Nigeria).

At the 1973 Annual Meeting, Governors provided views about the Committee's effectiveness. Several Governors expressed concerns that developing country needs and issues were not being sufficiently advanced in the Committee's work. The Governor for India recalled that developing countries supported the C-XX because they would be able to participate in the international monetary reform debate; and he noted that "the aspirations of the developing countries can be fully met only if" there is political will. Several other Governors believed that while the Committee had made progress, the outcome was unsatisfactory to developing countries (Pakistan; and Brazil also noted that the issue of real resource flows from developed to developing countries needed to be taken up by the C-XX). The Governor for Thailand believed that while the special circumstances of developing countries had been recognized, they had not been acted upon; and the Governor for Singapore called for a better understanding of the needs of emerging countries in the Committee's work.

Governors believed that the while the Committee had made some progress, more needed to be done to address the need for international monetary system reform. By January 1974, the C-XX stated in its Rome Communiqué that a permanent and representative Council of Governors should be established, with 20 members (the same number as the Executive Board). The Council would have the necessary decision-making powers "to manage and adapt the monetary system, to oversee the continuing operation of the adjustment process, and to deal with sudden disturbances which might threaten the system, while maintaining the role of the Executive Board." The C-XX's *Outline of Reform* was released in June 1974 and called for an Interim Committee of the Board of Governors of the Fund, pending establishment of the Council. During its two-year existence, the C-XX met six times and the Deputies, who had formed

a number of working groups, met twelve times. A number of Executive Directors or their designees served as advisors.

Phase Two: Interim Committee, the Second Amendment, and the Focus on Surveillance (1974–80)

In response to the *Outline of Reform*, at the Annual Meeting in October 1974 the Board of Governors asked the Executive Directors to prepare draft amendments to the IMF Articles of Agreement for the reform of the international monetary system, including the establishment of a permanent Council. Pending the establishment of the Council, the Governors created the Interim Committee of the Board of Governors of the IMF, and the C-XX ceased to exist.⁴ There was widespread support for the creation of the IC and several Governors expressed hopes that the IC would help to intensify efforts to reach a lasting solution to international monetary reforms. Those for Australia, Canada and Mauritania stressed that the IC must become a viable political authority. The Governors of Mauritania (on behalf of African Governors) and Mauritius supported the establishment of the Interim Committee and the Development Committee. The Governor for the Yemen Arab Republic noted that the IC must take developing country matters into account. The Governor for France remarked that the institutional structure of the Fund needed updating in order for it and the IC to discharge its functions.

A number of Governors also expressed their support for the establishment of the Council (including Canada, Ivory Coast, New Zealand, Romania, and Singapore). The Governor for Nicaragua stated that recurrent problems could not be dealt by *ad hoc* bodies. The Governor for Egypt also supported the establishment of the Council at this juncture, noting the “vastly changing conditions compared with the time of Bretton Woods.” The Governor for Zaïre believed that a Council/permanent body needed more examination, and the Governor for the Netherlands stated that he was in favor of a gradual process of reforms and amendments.

Beginning in July 1974, the Executive Board considered amendments to the Articles of Agreement and met over 20 times to discuss creation of the Council. After eight months, while many issues were decided, some political items could not be resolved in time to meet the deadline that Governors had set for the amendments. In addition to the outstanding

⁴The Joint Ministerial Committee of the Boards of the Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries (Development Committee) was also created at this time.

issues, a number of Directors expressed the belief that there was “an urgent need to deal with the problems of the real world.” In its January 1975 meeting, the IC asked the Executive Board to give priority to further efforts regarding establishment of the Council. Although the MD did not include the Council in the Executive Board work plan following the IC meeting, EDs continued their deliberations on the Council through December 1975.

At the 1975 Annual Meeting, Governors expressed varying levels of support for establishing the Council. The IC Chairman, Governor Turner of Canada, noted his support. He also discussed the delegation of powers and reiterated that the IC was supposed to be a body of, and with, political responsibility. He stated that not only should it be expected to make political decisions but that the questions put to it should be of a political nature, while technical issues should be resolved by Executive Directors. Turner also noted that while an 85 percent decision-making majority for items of a certain nature was high, it was appropriate because it would ensure broad consent. The Governor for China also supported this element. The Governor for Kenya, although amenable to having a permanent Council, stated that there was no need for the body at that time while negotiations on reform were still in progress. A few months prior, the Governor for South Africa had stated that “it might be preferable to gain more experience with a non-decision-making body before delegated powers of decision making are conferred on an organ such as the Council.” He believed that a majority of 70 percent and 85 percent of total voting power, respectively, for operational questions and political/structural questions seemed “reasonable and practicable” but also thought it “would be desirable if guidelines were established to assist in determining how these concepts would in practice be applied to particular decisions.” But such guidelines were not developed.

In 1975, the Executive Board submitted a report on recommendations for international monetary reform to the Interim Committee, noting that “an enabling power” for establishment of the Council as an organ of the Fund would be included in the proposed Second Amendment to the Articles of Agreement. The Board of Governors adopted the resolution in April 1976 and the Second Amendment to the Articles of Agreement entered into force in April 1978. Enabling authority for the Council was included in Article XII, Section 1, subject to provisions in Schedule D.

The Executive Board remained divided about the establishment of the Council even after the 1978 ratification of the Second Amendment. At the 1980 annual discussion of surveillance, the chairs for the U.S., Belgium, France, and Italy agreed that the “establishment of the Council would be an important move in indicating that a permanent and functioning monetary

system is in place, under the control of Governors.” Several constituencies, on the other hand, did not support establishing a Council at that time (Brazil, Canada, Germany, Indonesia,⁵ Japan, the Netherlands, Uganda, and the U.K.). Directors from among developed and developing countries were concerned that a Council would diminish the authority of both the Executive Board and the Board of Governors. Some believed the Interim Committee was functioning well and with more flexibility than would the Council. The Chairman of the Board concluded that the proposal for the establishment of a Council had “encountered objections that were already well known,” and that he would discuss the question of the title of the Interim Committee with the IC Chairman. The Council proposal, however, would not be considered for nearly another two decades.

Phase Three: Strengthening and Transforming the Interim Committee (1998–99)

This section outlines the reconsideration of the Council by Executive Directors and Fund Governors in 1998–99, and briefly notes the action by the Board of Governors to transform the IC into the IMFC as well as Governors’ statements in connection with the IMFC and Council.

The attempt to establish the Council was revived in 1998, in reaction to the difficulties the Fund faced in dealing with the East Asian and other crises. The idea was revisited initially by the Governor for France and supported by the Governors for Belgium and Greece, as well as by the MD. In May 1998, in London, the MD noted that the IMF was facing renewed challenges including structural reforms, governance issues, and the prevention of crises. He also stated that the IMF’s political governance, accountability, and legitimacy must be increased by vesting larger direct powers in the political representatives of all member countries, in order to make sure that the points of view of all members were accurately reflected and taken into account. He envisioned that this would be possible with a Council of Governors, particularly because split voting was a permissible feature of the Council. At the Annual Meeting in October 1998, the Interim Committee mandated the Executive Directors to study the possibility of strengthening and/or transforming the Committee.

⁵Indonesia did “not favor the establishment of a Council that would have authority to take decisions. Such authority would impair the position of the Board of Governors . . . and create problems for multicountry voting groups.” The Indonesian chair also noted further that the IC as an advisory body was adequate because its views, coming from Governors, carried weight.

Over the course of three Executive Board meetings, Directors revisited many of the issues discussed during earlier attempts to establish the Council, e.g., legitimacy of the Fund; the representativeness of the Council; trade-offs between representation and effectiveness during IC meetings; and the division of powers and responsibilities between the Executive Board and the Council. A majority of Directors opposed establishing the Council at that time. Some Directors believed that the Council should be pursued over the long term, while for the time being strengthening the IC's effectiveness seemed in order. A number of Directors believed that the creation of the Council would not result in additional legitimacy; and some believed it was "bad politics" for the Executive Board to question the legitimacy of the Fund or any of its organs. Some Directors reiterated the importance of the representativeness of the Council and the advantages of allowing split voting. A majority of Directors believed that improving interaction in IC meetings should not come at the expense of representation.

Directors were amenable to the Council making decisions regarding the strategic direction of the Fund. A number of Directors characterized the division of powers as operational (to be exercised by Executive Directors) and strategic (to be exercised by the Council), and an exchange ensued regarding the difficulties at times of distinguishing between these two types of decisions. Many Directors were opposed to having Deputies for the Council/Interim Committee so as not to potentially duplicate efforts or conflict with the Committee's political nature. They also envisaged that the preparatory work for the IC would rest with the Executive Directors.

At the Spring Meeting in April 1999, the IC asked the Executive Directors, along with IC Deputies, to explore the scope for institutional improvements at the Fund, including to the IC. Throughout August and September 1999, the Executive Board reviewed options including: (1) broadening the Interim Committee (transforming the IC into a joint World Bank–Fund Committee; creating an overarching group; creating another new structure); (2) establishing the Council; and (3) transforming the IC.

Executive Board members were divided on these options, especially with regard to the establishment of a Council. Eight Directors were not in favor or convinced of the need for establishment of the Council; three noted that their constituency was not in agreement; one preferred the Council option but deferred; and four believed further discussion was needed regarding the Council option. One Director explained that for member countries to seriously consider the idea, they would need "a clear understanding of what a Council will (or will not) do and its impact on the working of the Executive Board." One Director suggested that the

resolution to be submitted to the Board of Governors should refer to the “possible” rather than the “pending” establishment of a Council; and two Directors noted that there was no longer any need to mention the Council in the resolution. At the conclusion of these discussions, the Executive Board advanced a resolution to the Board of Governors for consideration at the Annual Meeting in September 1999, recommending the transformation of the IC into a permanent advisory committee.

At the Annual Meeting in September 1999, the Board of Governors adopted the resolution transforming the IC into the International Monetary and Financial Committee (IMFC) and strengthening its role as the permanent advisory committee of the Board of Governors. A number of ministers expressed support for the transformation, including the Governors of the Fund for Canada, China, the EU, Germany, Japan, the Netherlands, Saudi Arabia, and Venezuela. The Governors for Argentina and France were the only ones to mention the Council explicitly, the former being against and the latter in favor.

Phase Four: Governance Reform (2008)

Since 1999, there has been no further consideration by the Board of Governors regarding the establishment of the Council, although individual Governors made remarks in connection with the 2008 discussions on quota and voice reforms and the renewed discussion regarding strengthening the Fund’s legitimacy and governance system.

In May 2008, the IMF Independent Evaluation Office (IEO) released an evaluation report on IMF Governance in which it recommended a package of governance reforms, including that the Council be established. In preparation for the May 2008 Board meeting to discuss the IEO Evaluation on IMF Governance, most Directors noted that they did not support the establishment of the Council. One Director stated that he could support the recommendation, while a handful of Directors noted that they would be open to further discussion. At the meeting, an Executive Directors’ Working Group on IMF Corporate Governance was established, and a work plan detailing a framework for further consideration was subsequently formulated, discussed, and approved. The work plan did not include any proposed follow up on the Council, which would require direct intervention by the Board of Governors.

At the 2008 Annual Meetings, three Governors made statements regarding the Council. The Governor for the U.K. expressed his support for a Council, while the Governor for the Netherlands noted his opposi-

tion and the Governor for Switzerland stated he was not convinced that the Council should be established.

Summary

Discussions within the IMF to establish a high-level political decision-making Council of Governors have taken place over the past 40 years. The debate and context have evolved over time, yet decades later the same themes and concerns that raised interest in a Committee of Governors remain. This paper has attempted to provide the historical background to better recognize and understand these themes.

Two main rationales have been expressed for the establishment of this high-level ministerial decision-making body: (1) to enhance the IMF's legitimacy as the center of decision making regarding the international monetary system; and (2) to ensure a more balanced representation of all Fund members in decision making on the international monetary system. The authority for the Council is enshrined in the Fund's Articles; and the proposed Council's composition and processes have been largely agreed, although some issues remain unresolved.

Thus far, Governors have chosen not to establish the Council. Rather, in 1972, the Board of Governors established an *ad hoc* Council of Twenty (C-XX) to advise on reform. In 1974, the C-XX was superseded by the Interim Committee (IC), an advisory body created to supervise the management and adaptation of the international monetary system, pending establishment of the Council. In 1999, the IC was transformed into the permanent International Monetary and Financial Committee (IMFC), which continues with the mandate above (now including the global financial system), also on an advisory basis.

Over the past decades, many countries have changed their position regarding the establishment of the Council or important considerations related to such a decision. Some of the major issues debated and presented in this paper include: the need to explicate the division of responsibilities among the Executive Directors, the Council, and the Board of Governors; whether the Council should have Deputies; whether the Council should be an *ad hoc* or a permanent body; terms of reference; and how to address the needs and interests of developing countries and multi-country constituencies.

4

The Role of the International Monetary and Financial Committee in IMF Governance

ALEXANDER SHAKOW

This paper reviews the way the International Monetary and Finance Committee (IMFC) operates and its relationship to the rest of the IMF governance system. The IMFC is an integral part of the IMF governance system. It is a bridge between the Board of Governors—representing the 185 IMF member nations—and the 24-member resident Executive Board. The Committee does not usually initiate actions or propose policies, but rather provides a ministerial stamp of approval on conclusions reached elsewhere. As currently constituted, the Committee is not charged with and does not exercise oversight of the Executive Board or of senior Management. The paper suggests a number of steps that could be taken to strengthen the Committee’s effectiveness.

The author is grateful to the many people who provided valuable information and insights. I am also much indebted to Jack Boorman, Jeff Chelsky, Luc Hubloue, Leonardo Martinez-Diaz, and David Peretz for comments on earlier drafts, to Roxana Pedraglio and Borislava Mircheva for research assistance and to Rachel Weaving for editorial assistance. Of course, all errors are the responsibility of the author.

History of the IMFC

Origins. The IMFC's origins can be traced back to the formation of the Committee of Twenty (C-XX) in July 1972.¹ This *ad hoc* group of ministers, representing each of the 20 constituencies then seated on the IMF Board, was convened to address the turmoil in the international monetary system that ensued from the severing of the dollar/gold link in 1971. In October 1974, the C-XX submitted its Outline of Reform to the IMF's Board of Governors and, *inter alia*, recommended that a permanent and representative Council be established to carry on the unfinished work of the C-XX and to strengthen the IMF—in part, by allowing direct political representation of the membership.² Until the decision-making Council could be created, it was agreed to create an Interim Committee (IC) with an advisory role.

As Boorman (2007a: 90) describes it, the “immediate steps taken to deal with the new world of floating exchange rates led to the adoption of the second amendment of the Articles of Agreement” in April 1976. Put into effect two years later, the Second Amendment essentially legalized floating exchange rates and called on the IMF to exercise “firm surveillance” over these rates. The Interim Committee guided the IMF in fulfilling its new responsibilities under the Second Amendment. Boorman reports that “most observers” considered the IC had “performed a useful function” and he lists a variety of issues it addressed successfully from the 1970s through the 1990s.

By the 1990s, however, a strong belief had emerged that the Interim Committee itself needed to be strengthened, and that either through a revamped IC or by some other means there should be a heightened degree of political oversight of the Fund. While there was not enough support to create a Council, there was a widespread desire in capitals to strengthen the IC by transforming this 25-year-old “temporary” body into the permanent International Monetary and Financial Committee (IMFC).³

¹The Committee of Twenty was formally the Ad Hoc Committee of the Board of Governors on Reform of the International Monetary System and Related Matters. This paragraph relies heavily upon Boorman, 2007a: 88.

²See Abrams (Chapter 3) in this volume for further discussion regarding the Council of Governors.

³See Resolution No. 54-9, “Transformation of the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors,” adopted September 30, 1999 (in Selected Decisions and Selected Documents of the IMF, annual). The IMF Executive Board discussed this matter on several occasions in 1999. For example, see “Strengthening and/or Transforming the Interim Committee—Further Considerations,” EBD/99/86, July 13, 1999.

Mandate of the IMFC. As set out in the Resolution that created it, the IMFC's formal Terms of Reference were exactly the same as those given to the Interim Committee 25 years earlier (except for the additional words in bold below):

The Committee shall advise and report to the Board of Governors with respect to the functions of the Board of Governors in:

- (i) supervising the management and adaptation of the international monetary *and financial*⁴ system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;
- (ii) considering proposals by the executive directors to amend the Articles of Agreement; and
- (iii) dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee. In performing its duties, the Committee shall take account of the work of other bodies having specialized responsibilities in related fields.⁵

Most important, the newly named Committee remained advisory to the Board of Governors; it was not authorized to make decisions. Beyond the name change, which in practice ended the temporary nature of the Committee, the new resolution provided for only two other substantive changes: meetings were ordinarily to occur “twice a year” rather than “three or four times a year,” and, most significantly, “Normally, the Chairman, in consultation with members of the Committee, will call a preparatory meeting of their representatives (“deputies”).

In these relatively modest ways the governors' resolution fulfilled the desire to “strengthen and transform” the Committee. Board members, in their deliberations on the draft resolution, sought to minimize the number of changes from the original IC resolution. For example, after some discussion a proposed reference to the possible “establishment of subcommittees and working groups” was deleted. There was also some debate over whether to exclude reference to the specific role for deputies and to how

⁴According to Board sources, the addition of “financial” to the mandate reflected Managing Director Camdessus' strong view, in the wake of the Asian crisis, that the Fund had a legitimate role in this area.

⁵Resolution No. 54-9, “Transformation of the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors,” para 3.

deputies' meetings would be called (given the concerns of Board members about the potential dilution of their own responsibilities), but in the end the agreed text was included—in part because the Interim Committee had already experimented at two meetings with deputies and there was some desire to regularize their role within the system.⁶

Main features of the IMFC. In addition to the twice-a-year meeting schedule and the deputies' meeting noted above, the main characteristics of the Committee's arrangements as set out in the 1999 Resolution are as follows:⁷

- a. Membership of the Committee: Governors of the Fund, ministers or others of comparable rank [about one-third are central bank governors and two-thirds are ministers of finance]; one for each constituency with an executive director; each may have not more than seven associates;
- b. Meetings will be open to all, except that more restricted sessions may be held if the Committee so decides;
- c. Selection of the Chairman shall be by the Committee; the Chairman will serve for such a period as the Committee determines;⁸
- d. The Managing Director is entitled to participate in all meetings of the Committee;
- e. The Secretary of the Fund serves as the Secretary of the Committee;
- f. In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting; in the event of failure to reach a unanimous view, all views shall be reported and the members holding such views identified; and
- g. Observers may be invited to attend during the discussion of an item on the agenda.

While formally the differences with the Interim Committee have not been great, participants note that several substantial changes have been made:

- Ministers and capitals, at least of the larger countries and constituencies, now seem to be more involved in the process. This is in part due to the active leadership of a longtime Chairman, the greater use of more relaxed and informal meetings at both breakfast and lunch, the

⁶See Minutes of Executive Board Meeting of September 23, 1999, EBM/99/108, 9/23/99, p. 55.

⁷Resolution 54-9, "Transformation of the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors."

⁸The Board also discussed setting specific time limits on the Chairman's tenure, such as three years, but in the end it did not make any recommendations. See Minutes of Executive Board Meeting of September 23, 1999, EBM/99/108, 9/23/99.

regular meetings of deputies to help prepare meetings, and the use of the Internet to facilitate communications with and between capitals.

- Agendas and follow-through seem more systematic than during the IC period, and the link with the Board work program is more apparent.
- While Committee meetings are still seen as too ritualistic, there seem to be fewer set speeches by ministers in the IMFC than in the IC, thereby making the meetings more interesting to at least some members.
- In practice, the IMFC is perceived (by both critics and supporters) to be a decision-making body—thereby exceeding its formal mandate—despite the failure of the Council proposal.
- As part of a Fund-wide move toward greater transparency, the IMFC documents have become more accessible.

IMFC Role in IMF Governance in Practice

This section describes how the IMFC operates. The first part documents the processes followed in preparing for IMFC meetings, the meetings themselves, and the follow-up. The second part provides some short illustrative case studies, and the third part assesses the Committee's impact on the Fund and public perceptions of the Fund.

Processes Followed by the Committee

It should first be noted that until the October 20, 2007, meeting, all 15 IMFC sessions had been chaired by one person, then U.K. Chancellor of the Exchequer Gordon Brown. His influence, and that of his U.K. colleagues, has significantly shaped the operation of the Committee throughout its life.

Setting the agenda. IMF Management proposes the draft provisional agenda to the Executive Board, normally after informal staff-level discussions with the Chairman's office. After the Board's review, and before sending the agenda to the Committee, the Chairman's agreement is obtained. Chancellor Brown always sought to have a low-income country item on the agenda. During his tenure a series of issues relevant to these countries—such as the Heavily Indebted Poor Countries (HIPC) Initiative, the Multilateral Debt Relief Initiative (MDRI), and new instruments—received needed ministerial attention, but this blurred the distinction between the work of the IMFC and that of the Development Committee.

IMFC agendas are kept quite general and usually have two main parts. The first is a standard item in all meetings and addresses the Global Economy and Financial Markets—Outlook, Risks, and Policy Responses. The second usually concerns specific aspects of IMF activity. In recent years most attention has been focused on the Fund’s Medium-Term Strategy—at first its formulation, then its implementation and its component parts—particularly the quota and voice issue, the MDRI, multilateral surveillance, and adaptation of the IMF surveillance framework. In addition, the agenda usually lists a number of progress reports, but as background material not intended for ministers’ discussion at the meeting.

Committee documentation. The standard document for each meeting is the Managing Director’s Report to the IMFC on the IMF’s Policy Agenda. This 25–40 page background report for the Committee members covers a wide range of issues relevant to Fund policy and operations, and provides in one place a six-monthly overview of the Fund as seen by Management and incorporating the results of Board deliberations.⁹ It is not structured as an issues note or as a guide for discussion, but rather provides the Committee members with information on, *inter alia*, the state of play on outstanding issues. In addition, documents are provided on particular topical subjects.¹⁰ The Independent Evaluation Office (IEO) provides a progress report on its activities to each IMFC meeting as well.

Deputies’ meetings. The formal introduction of a meeting of deputies to prepare for IMFC meetings has been controversial from its inception. During the Gordon Brown years the deputies’ meeting was seen as an important step in the process by the Chairman and his team, as well as by a significant number of other G-7 and, increasingly, emerging market country members of the Committee. The intention was to engage capitals more systematically in developing the Committee’s work program, and to help ensure that ministers were well prepared by well informed senior officials. It was hoped that in this way the sought-after political-level oversight of the Fund might more effectively be achieved.

⁹An argument can be made that as a matter of good governance, given that the MD reports to the Board and not the IMFC, this report should be presented as from the Chairman of the Board on behalf of the Board, and not as a management document. According to Boorman, this was the approach followed during much of the life of the Interim Committee.

¹⁰In recent meetings these included, for example, a progress report on the quota and voice issue, an implementation status report on the HIPC Initiative, the report of the External Review Committee on IMF-World Bank Collaboration (the “Malan Report”) and the Report to the Managing Director by the Committee of Eminent Persons on the Sustainable Long-Term Financing of the Fund.

After the deputies have met, the Chairman of the Deputies—a senior official from the Chairman’s government—circulates to the Committee members a short summary of the deputies’ conclusions and key messages. He does so on his personal responsibility, which means that the summary does not go through a clearance process. These summaries have tended to convey a sense of what the Chairman would like to see in the communiqué.

Chairman’s message to the Committee. The Chairman’s letter to Committee members is sent just before the meeting and provides guidance on the day’s schedule, including some suggestions for general areas on which the discussion might focus.

Communiqué drafting process. As one experienced official described it, “the communiqué process is like democracy—it has lots of weaknesses but it is better than anything else.” Since the draft communiqué is presented to the Committee by the Chairman, he (and his colleagues) can have a considerable influence over what the document says. During the long tenure of Gordon Brown, the Chair did play a prominent role, and the new Chairman has indicated he intends to do the same. Initially, the drafting process was started several weeks before the meeting by IMF staff (usually a partnership of the Secretary’s Department and the Policy Development and Review Department, drawing on other parts of the Fund as needed), who would then incorporate comments from the Chairman’s staff. Subsequently, the Chairman’s staff began doing initial drafts themselves, seeking to reflect substantive matters more likely to interest the media and use more accessible language. The process evolved as the Fund and the Chairman’s staff became more accustomed to working with one another—ultimately arriving at an agreed version acceptable to both the Chairman and the MD for consideration by the Committee’s drafting group.

The draft communiqué is circulated to delegations (via their EDs’ offices) the afternoon before the Committee meeting takes place, thus providing only about 18 hours for review and consultation before the drafting committee meets on the morning of the IMFC meeting. This session, chaired by the Committee Chairman’s Deputy’s deputy, begins early in the morning (usually at 8:00 am) and must be completed in time for the members to review and approve the communiqué. A first section of the draft on the global economy is usually presented to the ministers in their plenary session, while the remainder of the text is made available at the ministers’ luncheon. This time pressure obviously puts a premium on strong and forceful leadership. Some chairs in the drafting committee—particularly those representing G-10 and emerging market country-led constituencies—are filled by senior officials from capitals, while developing countries are often represented by staff from EDs’ offices.

Reports on significant matters that are likely to affect communiqué wording are conveyed to the drafting committee from the concurrent ministerial deliberations.¹¹ Occasionally, language on very controversial and divisive issues is not tabled for review by the drafting group but is reserved for the ministers—as happened in the case of the quota and voice issue at the April 2006 meeting. On rare occasions, ministers are presented with alternative language for consideration.

Informal meetings at breakfast and lunch. These two occasions provide the best opportunity for ministers to speak to one another informally about current issues without others present except for the MD and First Deputy MD. These sessions, and particularly the 8:30 to 9:45 breakfast (introduced around 2005), are considered particularly valuable by those ministers who come well prepared. But some EDs are troubled by these closed meetings, as they worry about decisions being made in their absence and without minutes being made available. The item(s) for discussion at the informal meetings are usually set out in the provisional agenda and/or the Chairman's message to members before the meeting.¹² It is also at the lunch (from about 2:00 to 3:30) that the press communiqué is approved formally by the ministers (or whoever attends that portion of the lunch meeting on their behalf—often a deputy or an ED).

IMFC plenary session. These sessions, which are attended by the 24 members and their delegations, as well as about a dozen observers from related international organizations,¹³ last from about 10:00 am until 2:00 pm. After the traditional opening presentation by the Chairman of the Group of 24 developing countries, which reports on the G-24 meeting the previous day, the first part of the IMFC plenary focuses on the global economy, and the second on the particular IMF issues on the agenda. While there is no obligatory schedule, usually the first discussion is opened

¹¹On April 22, 2006, “remit” language on surveillance was conveyed to the drafting group based on Chairman Brown's summary of a discussion that began at breakfast and was agreed during the plenary session. This language caused considerable controversy and confusion in the Board for the next year or so until a workable system could be agreed upon.

¹²For example, at the October 20, 2007, meeting, the agenda noted that “the breakfast will focus on the lessons emerging from recent financial market turbulence, including on the role of multilateral cooperation.” At the previous meeting, the agenda noted that “Members will be updated on progress with the multilateral consultation on global imbalances at the breakfast” and that the Eminent Persons' Report on Financing the Fund would be discussed at the luncheon.

¹³The observers represented at the IMFC include the BIS, Development Committee, Financial Stability Forum, ECB, European Commission, ILO, OECD, OPEC, UN, UNCTAD, World Bank, and WTO.

with presentations by the Fund's economic and financial counselors. The Managing Director may make a brief comment at this time, or wait for one or two other speakers. Certain lead speakers are arranged in advance. These now usually include the Chairman of the U.S. Federal Reserve Bank and the President of the European Central Bank, and a small number of others representing a broad spectrum of the Fund's membership. The head of the Financial Stability Forum—an observer—is now a regular speaker early in the session as well. As ministers' prepared statements have been circulated in advance,¹⁴ their comments at the session are often made without reading from prepared texts. The Chairman then moves the discussion forward by focusing on the IMF issues.

Press conference. After the lunch, the Chairman and Managing Director hold a press conference at which they go over the communiqué and indicate what they believe to be the major accomplishments of the meeting.

Annual report to the governors. At each annual meeting, the Chairman of the IMFC gives a brief report to the governors indicating what the Committee accomplished at its recent meeting. In a formal sense this meets the requirement that the IMFC “shall advise and report to the Board of Governors.”

Follow-up on the Committee's communiqué. After the IMFC meeting, the staff prepare a work program for the Board to operationalize the priorities and timetables set out by the IMFC in its communiqué. These semi-annual work program documents are replete with references to the IMFC.¹⁵ The Fund's Secretary has stated that “the IMFC communiqué has turned out to be a key vehicle for providing fairly specific guidance on the Fund's policy directions going forwards and, in that context, provides the key framework for the biannual statement by the Managing Director on the work program of the executive directors.”¹⁶ There is, however, room for interpretation at the Board of some of the communiqué language, evident in the debate on the surveillance “remit” (see Bossone, Chapter 12 in this volume) as well as on the quota and voice issue.¹⁷

¹⁴Until the mid-1990s, the ministerial statements were read out to the plenary session. Moving to circulation of the texts in advance permitted more time for discussion and ultimately helped to reduce the overall meeting time. Many ministers make their statements available to the public directly, and all statements are published on the IMF external website.

¹⁵In the most recent (December 14, 2007) Work Program document there are eleven references to the IMFC; in the May 30, 2007 version there are ten references.

¹⁶Mr. Anjaria's speaking notes, “Decision-Making in the Fund,” January 11, 2007, talk at Executive Directors' Workshop.

¹⁷In the most recent meeting, the new IMFC Chairman considered it essential to bring his own communiqué language on this subject to the ministers, because the drafting process before the meeting had not advanced the discussion and, in the Chairman's view,

Impact of the IMFC

Views on the impact of the IMFC vary widely, partly because it is hard to separate the influences of each of the different governance bodies.

Impact on the Executive Board. Directors value the semi-annual IMFC meetings as a means to gain political-level endorsement of their work at the Fund Board. They recognize that the members of the IMFC are their bosses, and that particularly for those from large, single country constituencies, the important decisions are made in consultation with—and under the direction of—their capitals. Directors from multi-country constituencies have somewhat greater freedom as they are less likely to receive specific instructions on issues at the Board. Modern technology allows capitals to communicate instructions in real time on issues that are due to be discussed by the IMFC. Few ministers follow the details of IMF work with great care; and most rely upon their EDs or officials to handle the day-to-day work, and are briefed late in the day on the issues arising at the IMFC.

Directors consider the deputies meeting unnecessary, perhaps an intrusion into the responsibilities of the Board.¹⁸ Many constituencies—particularly those from the poorer countries—do not send high-level officials at the “deputy” level to these meetings. This erodes the legitimacy of the meeting as a means to prepare for the ministerial discussion, and strengthens the influence of those countries that are able to engage at a senior level.

Impact on IMF staff and senior management. The Managing Director must attend to the IMFC and its Chairman’s concerns and interests. Most Fund staff, however, are not involved with preparations for meetings. Most of those who are involved are the staff of the Secretariat and the Policy Development and Review Department. Senior managers are aware of the communiqué drafting process, but unless it addresses their specific area they are unlikely to pay close attention—despite its impact on the Board’s work program.¹⁹

had moved it backwards. Thus, in October 2007 the IMFC repeated the August 2006 call of the Board of Governors, for a “more than doubling of basic votes.”

¹⁸A survey of Board members conducted in connection with the IEO Evaluation on IMF Governance revealed that most Board members believed these meetings “add little value,” while a similar survey of authorities revealed that a majority of the authorities considered them helpful.

¹⁹Ambivalence about the communiqué is evident from an IEO survey of IMF staff conducted for the governance evaluation. Well over half the respondents thought that only “sometimes” does the communiqué provide clear guidance on policy and strategy issues; more than 20 percent thought it rarely did so. To some degree this may represent the lack of clarity on, for example, the Fund’s role in low-income countries.

Impact on public perceptions of the IMF. The IMFC is known to only a small number of people outside the official community. Twice a year there is a report by the Managing Director to the IMFC, public statements by IMFC members, an IMFC communiqué, and a press conference. Together, these provide a high-profile opportunity to reach an external audience, but judging from the scant media attention the IMFC gains it appears that the issues it deals with are often (incorrectly) perceived as simply too obscure and specialized to be of general interest (Boorman, 2007b: 88). In addition, the IMFC session is held on the weekend following the release of the *World Economic Outlook* and after the G-7 meeting—the two events that do attract the media’s attention. A further factor that discourages media coverage is that the IMFC communiqué rarely contains “hard” news and tends to be written in bureaucratese. (An interesting question is whether a document that is described as a press communiqué, and yet seems to be more of a message to the institution, can adequately serve both purposes.)

IMFC Relationships with Other Bodies

The resolution establishing the IMFC states that it should “take account of the work of other bodies having specialized responsibilities in similar fields.” While this statement was probably intended to refer primarily to institutions such as the WTO and OECD, in a literal sense the IMFC is also the place where all the “Gs” come together—the G-7/8, G-10, G-20, and G-24. One way this contact is accomplished is by including a dozen observer delegations in the plenary sessions of the Committee’s meetings. Several of these delegations are invited to speak—as in the discussions of the global economy. But the more important question is how the IMFC’s deliberations—and its pronouncements—reflect the positions taken by these other bodies, and vice versa.

Group of 7. The group of nations with by far the most influence on the IMF and the IMFC is the G-7.²⁰ G-7 ministers hold a meeting just before the Spring and Fall IMF/World Bank Meetings. Once the G-7 ministers have agreed on a position, they seek a broader endorsement for it through

²⁰For example, see Van Houtven (2002), Boorman (2007a), and Passacantando (2007). Interestingly, a review comparing G-7 communiqués with those of the IMFC meetings immediately following found that with a few modest exceptions, G-7 communiqués became less prescriptive over time and there appeared to be a diminished tendency to simply adopt IMFC communiqué language from the G-7—as contrasted with the April 2000 communiqué, for example, with its strong proposals for IMF reform.

the IMFC. In recent years, they have not been as unified, but their influence is still pervasive. While many complain about the G-7's dominant role in the IMFC, they also consider it useful to have the major powers engaged in the work of the IMF.

Group of 20. The G-20 was created at about the same time the Interim Committee was transformed into the IMFC. The obvious question is why the United States and Canada—the main initiators of the G-20—believed that a new entity was required to address the Asian crisis and other international financial crises of the late 1990s. Clearly the G-7 needed a way to engage the big players among the emerging market countries if its members were to be able to address the Asian crisis and other systemic architecture issues such as transparency or accounting standards. Thus, they sought to extend the G-7 organizational approach to include other key nations throughout the world, maintaining as much control as possible of the process, its informal and largely unbureaucratic procedures, its ability to invite the countries it wished to, and to have membership by countries, not constituencies. In all respects these were criteria that the IC/IMFC failed to meet: the IC/IMFC constituency system did not ensure that the “right” countries—i.e., the big countries with large populations and/or resources—would be represented around the table; moreover, countries speaking for larger constituencies in a formal way would be constrained in their openness; the IMF itself was considered too bureaucratic, adding an overlay that the G-7 simply did not wish to bother with as it sought early agreement on key actions.²¹

In practice the G-20 has been viewed as a reasonably effective body in which participants are able to address difficult issues openly and candidly, without being required to span the full range of views of the 185 IMF members. The rotation of the chairmanship each year (as agreed a couple of years after the Group's establishment) together with greater involvement in agenda setting, has helped to build ownership among its membership, as has the interaction among its deputies and sub-committees, which meet frequently and communicate by Internet and phone throughout the year. Its troika system (whereby the past, current, and future year's chairmen operate as a kind of steering committee) facilitates efforts to use smaller groups to reach agreement on contentious issues. Based on these contacts and associations, the G-20 made a major attempt in 2007 to break the bottleneck in the Fund quota and voice debate. It came close, but it failed to overcome the difficulties.

²¹These views reflect comments in personal conversations with participants in these deliberations.

In general, however, the G-20 looks at the big economic issues, leaving to the Fund Board and IMFC the more technical matters and the implementation of important decisions. There is some overlap, but it does appear that the discussions among the G-20, at various levels, contribute to a better understanding of differing points of view among these important players and that they complement the judgments and positions taken at the IMF and IMFC.

Group of 24. The G-24 was set up in 1971 and sought to establish itself as the voice of developing countries in international monetary affairs—paralleling the G-77 role at the United Nations on political affairs. Its meeting takes place before those of the IMFC and Development Committee, and issues a communiqué that reflects its members' views. But its cohesion has been weakened by the diverging interests of its members, and its communiqués lack prioritization (Van Houtven, 2002: 37). In general, the G-24 communiqué has had little direct impact on the IMFC communiqué language.²² In part this reflects, of course, the relative weakness of this group of nations, but underneath that lies the inherent weaknesses of a body whose member nations are so disparate. If it were able to agree on a small set of high priority items, and argue its case with cogency, the G-24 could become more influential than it is today, as has been the case with its work on quota reform.

Development Committee. This formally named Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries was created in October 1974. While it is a joint World Bank/IMF committee, in practice it has focused particularly on World Bank issues, inasmuch as the Fund has the IMFC to discuss its concerns. Joint papers are prepared by the staffs on items that come before both committees—for example, the Global Monitoring Report, Bank/Fund collaboration and, particularly, debt reduction issues. The two committees have occasionally held joint meetings to deal with joint ventures of the two institutions—in particular the HIPC Initiative. These sessions were largely an attempt to show that the two institutions and their member governments were committed to dealing jointly, creatively, and forcefully with the debt problems of the poorest nations. On a number of occasions in earlier years the wording on issues found in both communiqués was taken directly from the IMFC text agreed upon the day before the Development Committee meeting.

There have been occasional suggestions that the Development Committee should become a Bank-only committee, more clearly paral-

²²IEO analysis of G-24 and IMFC communiqués.

leling the IMFC for the Fund. This would have the effect of improving the governance structures of both the Bank and the Fund. This idea has never gained broad support, in part because IMF managing directors have thought it important to retain a forum through which to stress the Fund's interest in development issues, and in part because officials in capitals worried that a Bank-only committee would attract aid agency heads and not finance ministers, thereby weakening its impact. Such a proposal might arise again, in part because of IMF budget constraints (the IMF pays half the costs of the Development Committee) and because most Fund executive directors rely entirely on their Bank counterparts for Development Committee issues. There is no indication that the IMF or its Board look to the Development Committee for guidance. There is overlap in the agendas. This suggests a governance problem that needs fixing.

Other institutions and groups. The Bank for International Settlements—which is represented at the IMFC—holds a monthly meeting of central bank governors, thereby promoting greater informal exchange between those governors who are also members of the IMFC. The Fund is represented on the Financial Stability Forum (created by the G-7 at about the same time that the G-20 was formed) which meets semi-annually; the FSF is an observer at the IMFC. The Chairman of the FSF makes regular presentations at IMFC meetings as part of the global economy discussions. In addition, in Europe the ECOFIN group—many of whose ministers are present at IMFC meetings—holds regular meetings at several different levels, which again helps build alliances and makes decision making easier, including on issues that may arise at IMFC sessions.

Assessment of the IMFC as Currently Constituted

Assessments of Committee Functions

Is the IMFC a source of political legitimacy for the Fund? To a limited degree, the answer is “yes.” The Fund's 185 members are represented around the table at a political level, with the involvement of capitals, and they pronounce on behalf of the membership. This is a forum for different voices and an alternative to the G-7 view alone. The IMFC contribution to legitimacy, however, is diminished by the discomfort of developing countries and some others with the current balance of Board chairs and quota allocations.

How effective is the IMFC as advisor, decision maker, and agenda setter for the Board and Management? The Committee does make decisions, even if these are couched in communiqué language such as “looks forward to” or “agrees the IMF needs to” and so forth. Ministers believe they are there to make decisions, not just to talk, and so they see the conclusions reflected in their communiqués as “decisions.” While decision making certainly exceeds the IMFC’s formal mandate, this belief is the reality and it is unlikely to change. The Committee is considered by many to do a reasonable job in reflecting shareholders’ views and in giving directions, even though some developing-country Board members believe the consultation process at the Board is far more representative, given the ample time available in Board deliberations to arrive at conclusions. The implementation of Committee “decisions” are sometimes subject to further interpretation by the Board. The IMFC conclusions are then reflected in the EDs’ work program, which is revised semi-annually following IMFC meetings. Lack of agreement on the appropriate role for the Fund on an issue is reflected in the communiqués, and limits the IMFC’s effectiveness as an advisor—as seen in the debate in recent years over the Fund’s role in low-income countries.

Does the Committee provide oversight over Board and Management, ensuring accountability and discipline? The Resolution establishing the IMFC gives the Committee no formal authority to exercise oversight of the Board or Management.²³ The IMFC does not exercise the oversight over Management that might be found in the corporate sector, nor does it evaluate the Board’s collective performance. Some individual govern-

²³Eichengreen (1999) wrote that “ultimately, a specific body must have the power to hold the Executive Board accountable. The obvious candidate is the Interim Committee....” Boorman (2007b: 15) has described the contrast between the IMF governance structure and the private sector very clearly: “Thus, the Fund executive board is not simply an oversight body as are most corporate boards; it is the main player in most of the specific decisions taken in the Fund. From a governance perspective, this reality makes the Fund board’s oversight role more complex as it is a direct actor in what it is supposed to oversee. At minimum, this complicates the assigning of responsibility and accountability in the Fund—two key elements in any system of governance. Compounding this problem is the fact that there has been no formal process for assessing the performance of the executive board. Some attempts are made at self-assessment, through periodic reviews of board procedures, board retreats, and other means. However, it is clear that these are not sufficient. At minimum, there should be a formal process of self-assessment by the executive board—a process seen elsewhere as a developmental tool for improving the performance of corporate and other boards. Consideration should also be given to mandating an independent assessment of the board’s performance, with the outcome reported to the IMFC or to the board of governors.”

ments exercise oversight in their own fashion; for example, both the U.S. Treasury and the U.S. Congress do this in numerous ways, but these are unilateral rather than multilateral.

Does the Committee add value? The IMFC plays an important role in instilling discipline in the Fund's work program and in reviewing Fund progress towards agreed objectives. Perhaps most importantly, the fact that the meetings are held every six months means that they are action-forcing events. While a Board meeting can be postponed, the IMFC meeting cannot. Thus, staff, management, and Board must follow a schedule with real deadlines to prepare important issues destined for the IMFC. In those cases where action is delayed, the IMFC can help move the process along—as with the Medium-Term Strategy in 2007. While the Committee does not have time to give thorough consideration to any issue, its comments can serve as an important reminder to the Board, management, and staff. It comes back to issues of note—such as progress on implementing new approaches to multilateral surveillance or the debt initiative—as a way of pressing action.

Does the IMFC play the role of steering committee for the international financial system—in effect, facilitating the Fund's ability to be the anchor institution for the global public good of international financial stability? The answer is “no” under current circumstances. According to Portugal (2005: 26–28), “Like its predecessor, at best the IMFC has had a mixed record in promoting international cooperation in economic, monetary and financial issues. . . . It does not seem effective either in promoting a sufficiently high level of international cooperation that would lead to faster fiscal consolidation in the United States, greater exchange rate flexibility in Asia, and the adoption of bolder structural reforms in Europe and Japan so as to increase its potential rate of growth.” Eloquent arguments have been made for why the Fund and the IMFC are best suited to play this leadership role (Portugal, 2005; Camdessus, 2005: 16), but so far this has not occurred.²⁴

What is the quality of the meetings themselves? It is very hard to generalize, given the varying nature of the meetings. Moreover, my sample of interviews is too small to be definitive. One relatively objective measure, however, is that for the 16 IMFC meetings held since the Committee's inception in 2000, on average about 20 (of 24) governors attended each meeting in person (from a low of 16 to a high of 22 at individual sessions). Having more than 80 percent of the chairs occupied at these meetings

²⁴The G-7 believes it has a global mandate given the members' role as shareholders, whereas the IMFC has only the IMF mandate. For a summary of the case for a new form of global governance based on a “global system of reformed institutions and new governance mechanism,” see Boughton and Bradford (2007).

by principals, on average, is not a bad record given the pressures on governors' schedules. But anecdotal evidence suggests that members from many developing countries still feel very little sense of ownership of the Committee's work, complaining that the meetings are not based on their agenda of issues and remain too ritualistic.

The breakfast sessions, limited to members only, are considered quite valuable, both for the quality of the discussion and for the opportunities they present to meet peers informally. In the plenary sessions, the global economy discussion has been generally well received given the participation of the world's major economic and financial policymakers, although Bank of England head Mervyn King (2006) has noted that "despite strenuous efforts by its Chairman . . . to promote discussion, there is little genuine interaction between members of the IMFC . . . about the international monetary system." Ministers'/governors' participation in Committee discussions has been mixed. The discussion of the Fund-related issues—the second part of the plenary—is apparently of less interest to many members. The luncheon discussions were often not attended by most ministers, and the need to review the communiqué during the lunch further reduces ministers' interest in participating. Nevertheless, important decisions have been taken at these lunch meetings, including adding new communiqué text on the quota issue in October 2007 at the behest of the new Chairman.

Value of the Deputies' Meeting

As noted above, many EDs tend to be negative about deputies' meetings. On the other hand, the view from G-7 capitals, as well as some others, is that these meetings play a useful role in helping engage their ministers' key officials at an earlier stage, thereby directing more political-level attention to the IMF issues than would otherwise be the case. These officials suggest that most EDs are often not well informed about their policymakers' current views. Engaging officials at this stage also makes briefing the minister more effective and timely, and the contacts made at these meetings help form useful networks for other purposes.

But even supporters acknowledge that the deputies' meetings have not worked out as well as had been hoped. There are differences of view as to whether the deputies' meeting is best scheduled three weeks before the ministerial meeting, thereby permitting the deputies to play a large role in the original drafting of the communiqué (rather than in a rushed process on the day of the meeting itself)—or on the day before the meeting, to save on travel and administrative costs. Others have argued that deputies should

meet three months before IMFC meetings to permit more focus on oversight issues. There are also some who think deputies need not meet every six months, gathering instead only on an annual basis—but others believe this would miss out on important issues. Thus there are many differences of view about both the value and nature of the deputies' meeting.

Impact of the Chairman

It is clear that the personality and style of the IMFC Chairman can make a big difference. Gordon Brown chaired the first 15 meetings of the IMFC; to date, Italy's Tommaso Padoa-Schioppa has chaired one. Thus, nearly all the comments in this paper apply to the period of Chancellor Brown. There is no doubt that the conduct of the Committee reflected Brown's very strong personality and effective staff. The fact that he held this position for so long meant that he and his colleagues had a very good understanding of the IMF and the issues it faced—in most cases far better than any other IMFC member—and were able to pull together support for key issues high on *his* agenda. This experience meant that Brown was also able to play a very important role in building consensus on Rodrigo de Rato's candidacy for Managing Director. Brown set a very high standard for activism—which was not always appreciated by some members and IMF staff who saw him as playing an excessively domineering role. Moreover, because of Brown's international stature, the Committee gained substantial attention from governors and the financial community that it might not have received otherwise—and was seen by many as a serious forum.

The new Chairman has already made clear that he thinks the position should rotate among geographical areas and should have a time limit—say three years—although this could weaken the role of the Chairman *vis-à-vis* the IMF Management and Board. He has also asked the members to “reflect on the way the IMFC operates,” so it is likely that part of the April 2008 meeting will be devoted to this subject.²⁵

Overall Assessment

Given the circumstances, the IMFC has done a reasonably good job of fulfilling a few limited but useful roles. It has provided a regularly scheduled action-forcing event and a valuable forum for exchange of views among a diverse set of participants, and it has given the seal of political approval to

²⁵Remarks by the Chairman on “The Role of the Fund and of the IMFC,” IMFC Lunch, October 20, 2007.

many policies and programs developed inside the Fund and agreed upon by the Fund Executive Board. It is the political-level forum that most clearly reflects the views of the Fund's membership, and it has pushed through actions that might not otherwise have been approved—such as the MDRI.

At the same time, given the structure within which it must operate, the Committee has done little to resolve other major issues (e.g., quota and voice) by breaking logjams. It is not a source of strategic initiatives, does not articulate the Fund's initiatives independently of Board and Management's advice,²⁶ and has not sought to exercise real oversight of the Board or Management.

The new IMFC Chairman challenged his colleagues to examine their role in an April 2008 brainstorming session:

Because of its composition and size, our Committee bears a special responsibility for the IMF. We are those who collectively share a duty to look farther into the future, to ignore the sirens of short-term interests, to move beyond our individual countries' advantage, bearing in mind that the interdependence of our economies and societies will continue to tighten.

The need for leadership is pressing at this juncture, when we are faced with the issue of quota and voice—an issue that is vital for the legitimacy of the Fund and potentially divisive. That must be our first priority.

However, our leadership is needed for a much broader range of issues. Such issues concern primarily the mission and instruments of the Fund. The implementation of the Medium-Term Strategy should be the focus. The change in this Chair, the coming of a new Managing Director and the fact that more than half of the persons around this table were not there when the Strategy was adopted, indicate that an opportunity for reflecting on it should be created. . . .²⁷

Options for the Future

Depending on how they are resolved, certain fundamental issues concerning the governance of the IMF may significantly affect the future role and place of the IMFC. Among the major options are to: (1) leave the

²⁶This was also true of the Interim Committee, which was “only rarely...able to do much more than ratify or discourage initiatives that had been carefully worked out in advance, most often in the Executive Board” (Boughton, 2001: 1029).

²⁷Remarks by the Chairman on “The Role of the Fund and of the IMFC,” IMFC Lunch, October 20, 2007.

structure essentially as it is; and (2) convert the IMFC into a decision-making Council. Though it is beyond the scope of this paper to assess the likelihood of these (or other) options, it is relevant to consider how under each the IMFC might become a more effective instrument to strengthen the IMF and the search for consensus in the international community on important issues.

Under any circumstances, satisfactory resolution of the outstanding quota and voice issues, including representation at the Board table and in the IMFC, is essential if the Fund's governance structure is to gain enhanced credibility across the globe. But, as noted above, that alone will not ensure that the Fund and the IMFC are able to act as the anchor for the global public good of international financial stability. For this to happen, a real change in the current political dynamics is required. The willingness of the U.S. and Europe to look to the IMF and the IMFC in this way will occur only if genuine multilateral solutions come to be recognized as crucial to resolving growing world problems—and if the Fund appears to be up to this task.

Again, it is beyond the scope of this paper to address the major steps needed to ensure that the Fund as an institution is well equipped to address the changing future needs of the global economy.²⁸ But even without radical changes, a number of possible actions would enhance the IMFC's ability to make a greater contribution. While the big powers are unlikely to cede authority to the IMF as an institution, they are much more likely to agree to find multilateral solutions in the IMFC, using the IMF as an instrument. The following ideas come from a variety of sources, both inside and outside the Fund. Some of them have been mentioned above, some have not.

If the current situation prevails for some time to come, any changes to the way the IMFC operates will necessarily be marginal, and will certainly not permit the IMFC to become the forum for debate and resolution of key international issues. The Committee will essentially remain a convenient place to bring ministers and governors together twice a year to address IMF concerns and share their current views of the global economy.

The following changes might be considered, bearing in mind that any changes made to enhance the effectiveness of the IMFC can not be seen in isolation from their impact on the Board and other parts of the system:

- (1) The IMFC should encourage greater accountability by the Board, including the introduction of a periodic collective assessment of its

²⁸For this purpose a very good starting point is Boorman (2007b).

performance—with participation by outside independent parties—and a discussion by the IMFC of this assessment. (And, at some point, this process should be broadened to include a self-assessment of the IMFC.)²⁹

- (2) Strengthen the ability of the Fund Secretariat to serve as a true staff for the IMFC Chairman (particularly if the Chairmanship rotates to members with weaker national capacity for administrative support), so that the Secretariat is increasingly perceived as representing the Committee members and less as the agent of Fund management.
- (3) Agree, as suggested by the new Chairman, to rotate the Chairman's position by region, and adhere to a two- or three-year term limit, bearing in mind that the selection—and the transparency of the selection process³⁰—will be extremely important both to public perceptions and to the harmonious functioning of the Committee.
- (4) Alternatively, consider the advantages and disadvantages of selecting a Chairman from among eminent personalities outside the Committee—both to raise the profile of the Committee and to ensure more time and attention to its business.
- (5) Given the unwieldy size of the IMFC, experiment with the formation of smaller sub-groups of members to develop specific issues and ideas for consideration by the full Committee. This approach is used successfully by the G-20, ECOFIN, and other bodies (and was nearly included in the original resolution setting up the IMFC).
- (6) More ambitiously, create an executive committee representing all regions and including the Chairman and three deputies. This would facilitate greater interaction between meetings, help to resolve difficult issues, and acknowledge more overtly the Committee's role in carrying out the governors' responsibilities.
- (7) Consider creating standing committees (e.g., program and finance committees) to exercise oversight and promote greater accountability by both Board and management.
- (8) Be prepared to hold extraordinary meetings to address urgently a current crisis, and also consider not meeting every six months unless the circumstances call for it.

²⁹Boorman (2007b: 15) has proposed that “consideration be given to mandating an independent assessment of the Board's performance, with the outcome reported to the IMFC or to the Board of Governors.”

³⁰For example, at present there are no written rules as to how this process is to take place.

- (9) Consider meeting once every two years or so at the head of state or government level.³¹
- (10) Experiment with various alternatives to the current deputies' role. For example, be clear that the deputies' meeting, which could be held several weeks before the IMFC meeting, would be able to design the communiqué at an early stage so as to focus the ministers' discussion on the two or three issues most in need of their attention. By ensuring a more substantive role for the deputies, the Chairman should strongly encourage all capitals to send senior officials—recognizing that in a few cases the poorest countries' representatives may need help in this area—so that this meeting so is not largely a repeat of the Board meeting.³²
- (11) Shorten the communiqué by focusing on key conclusions only, and consider as well the alternative of a Chairman's statement that would be issued on his authority—after consultation but without the current rushed communiqué process.
- (12) Constituencies should be encouraged to set comparable high standards in choosing their IMFC representatives, and in spelling out their duties and responsibilities, thereby helping to create a body that well represents the diversity of interests seated at the table.
- (13) To broaden representation by developing countries, provide observer status to the G 24 at the IMFC (in addition to the opportunity now given to report on the G-24 meeting), as is the case for the OECD and the FSF.
- (14) Eliminate potentially conflicting or duplicative roles in IMF governance by making the Development Committee a Bank-only Committee.³³

If a decision is made to end the ambiguity that now prevails, and to turn the IMFC into a decision-making body called the Council, all of the suggestions above would still be appropriate to consider. Some observers believe the argument for a Council is now much stronger than it was nine years ago, because the primary focus of the Fund and the Committee is now on broad systemic issues and less—at least for now—on the country issues that were so prominent at the time of the Asian crisis. Moreover, the Council structure would present an opportunity for split voting that would require more consultation within constituencies than is necessary in the

³¹As proposed by Mr. Camdessus. See Van Houtven 2002: 36.

³²Boorman (2007b: 17) reflects on the deputies' role and calls for "a clear assessment . . . about the impact . . . on the governance of the Fund."

³³The recent "Malan Committee" Report on Bank/Fund Collaboration (IMF and World Bank, 2007, p. 34) recommends a quite different approach—in effect making the two committees work closely together to demonstrate the importance of Bank/Fund collaboration.

IMFC. Others express concern, however, that without a serious quota and voice reform, any move to a Council would be premature, given the inequitable distribution of votes and seats in the Board and IMFC. If these reforms were to occur, and the Council to come into being, it would make many of the possible steps listed above much more viable and realistic.

Conclusion

The IMFC serves a valuable purpose, as spelled out in this paper, but its role is limited by weaknesses in the overall governance system of the IMF. Solving some of the critical outstanding issues that are fundamental to the Fund's future—including the quota and voice issue and resolution of what the Fund's mission is in today's world—is essential. How these are resolved will determine whether or not there will be a major and growing role for the IMFC or some comparable body. But whatever the case, there are steps that members could take to strengthen the Committee's performance—and that of the Fund. This paper has suggested some ways this might be done.

References

- Anjaria, Shailendra, 2007, speaking notes, "Decision-Making in the Fund," January 11, talk at EDs' Workshop.
- Boorman, Jack, 2007a, "The IMFC: Its Origin and Future," in *Global Governance Reform: Breaking the Stalemate*, ed. by Colin I. Bradford and Johannes F. Linn (Washington: Brookings Institution).
- , 2007b, "An Agenda for Reform of the International Monetary Fund" (Washington: Emerging Markets Forum).
- Boughton, James M., 2001, *Silent Revolution: The International Monetary Fund 1979–89* (Washington: International Monetary Fund).
- , and Colin I. Bradford, Jr., 2007, "Global Governance: New Players, New Rules," *Finance and Development* (December), pp. 10–14.
- Camdessus, Michel, 2005, "International Financial Institutions: Dealing with New Global Challenges," Per Jacobsson Lecture. Available via the Internet: www.perjacobsson.org/lectures/092505.pdf.
- Eichengreen, Barry, 1999, "Strengthening the International Financial Architecture: Where Do We Stand?" East-West Center Workshop, October.
- Independent Evaluation Office (IEO), 2008, "Survey Results for IEO's Evaluation of IMF Corporate Governance—IMFC Questions, February," in *Governance of*

- the IMF: An Evaluation*, Background Document I (Washington: International Monetary Fund).
- International Monetary Fund and World Bank, 2007, "Final Report of the External Review Committee on Bank-Fund Collaboration" (The Malan Report). Available via the Internet: www.imf.org/external/np/pp/eng/2007/022307.pdf.
- King, Mervyn, 2006, "Reform of the International Monetary Fund," speech by the Governor of the Bank of England at the Indian Council for Research on International Economic Relations (ICRIER), New Delhi, February 20.
- Passacantando, Franco, 2007, Bank of Italy presentation to InWent–IEO Conference in Berlin, November 7–8.
- Peretz, David, 2006. "The IMF as the Principal Institution for Promoting the Global Public Good of Financial Stability," Chapter 4 in *Financial Stability: Expert Report for the International Task Force on Global Public Goods*. Available via the Internet: www.ggptaskforce.org/bazment.aspx?pageid=269#bazAnchor.
- Portugal, Murilo, 2005, "Improving IMF Governance and Increasing the Influence of Developing Countries," G-24 Technical Group Meeting, March 17–18, Manila. Available via the Internet: www.g24.org/Portugal.pdf.
- Van Houtven, Leo, 2002, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*, IMF Pamphlet Series No. 53 (Washington: International Monetary Fund).

5

Executive Boards in International Organizations

LEONARDO MARTINEZ-DIAZ

To identify ways to strengthen the IMF's Executive Board in its various functions, this paper compares and contrasts that governing body with the executive boards of eleven other inter-governmental organizations (IGOs). The paper identifies four key roles that IGO executive boards are expected to play—those of political counterweight, performance police, democratic forum, and strategic thinker—and assesses how well the boards of the eleven organizations are equipped to play these roles. The exercise allows us to identify three “models” of governance, each with different strengths and weaknesses. The paper concludes that the twin crises of relevance and legitimacy that the IMF is currently facing are closely related to the Fund's adherence to a particular model of governance. This model gives major shareholders close control via the Executive Board over the use of the financial resources they provide, but this control is maintained at the expense of the Board's capacity to act as strategic thinker, performance

A version of this article was published as “Boards of Directors in International Organizations: A Framework for Understanding the Dilemmas of Institutional Design,” in *Review of International Organizations*, May 2009.

I am thankful to Alisa Abrams, Jeffrey Levine, Borislava Mircheva, and Roxana Pedraglio for their excellent research assistance. Thanks also to Tom Bernes, Ralph Bryant, Jeff Chelsky, John Hicklin, and Sandy Mountford for their helpful comments. For her editorial assistance, thanks to Rachel Weaving; for administrative assistance, thanks to Arun Bhatnagar and Jeanette Abellera.

police, and democratic forum. The paper offers recommendations on how to strengthen the Board's capacity to play these other roles.

Rethinking IMF Governance Reform

In recent years, the debate on reforming the governance of the International Monetary Fund (IMF) has largely focused on the issue of quotas and voting power. Reforms in this area seek to protect the voting power of the institution's smallest shareholders from further erosion and to augment the voting power of countries whose growing weight in the global economy is not reflected in their quotas and votes.¹ But these adjustments, by themselves, are unlikely to address the institution's most serious shortcomings in effectiveness, efficiency, accountability, and member representation. Also needed are reforms to the Fund's *internal governance*—reforms that might improve how the institution thinks, makes decisions, and relates to its members and stakeholders. This type of reform means examining closely how the Fund's governing bodies—and the Executive Board in particular—function.

Why focus on the Executive Board? From the Fund's inception, the Board of Governors (the institution's highest governing body) delegated to the Executive Board most of its powers. Charged with conducting "the business of the Fund" and with exercising "general control" over the Managing Director, the Executive Board was meant to be the locus of decision making and oversight in the institution (IMF Articles of Agreement, Article XII, Sections 3–4). The Board is also the principal forum in which the representatives of member governments interact with the technical experts that staff the institution and where political authorities give legitimacy to the staff's technical judgments. And third, the Board is the main organ for providing voice and representation to the Fund's near-universal membership.

The aim of this paper is to illustrate how the different roles of the Fund's Board could be strengthened. Its method is comparative analysis—comparing and contrasting the Fund's Board with the executive bodies of other IGOs. The paper attempts to show three things: (1) that the arrangements that govern the IMF's Executive Board today are part of a larger universe of possible governance models, and that each of these models has a different set of strengths and weaknesses; (2) that changing how the Fund's Board operates necessarily involves trade-offs among roles; and (3) that specific governance

¹Agreement on this issue was reached by the Executive Board in April 2008 and endorsed by the IMFC. For a critical view, see Bryant (2008).

mechanisms imported or adapted from other governance models can help strengthen the Board and the Fund's internal governance more broadly.

The paper has four parts. The first section identifies four generic roles that executive boards of IGOs are expected to play and proposes a series of indicators to measure these characteristics. The second section uses these indicators to evaluate how the Fund's Board performs each of these roles. The third section does the same, though more superficially, for eleven international organizations. This assessment allows us to categorize the organizations according to their respective "governance models" and to compare them with the IMF. The final section draws conclusions from this comparative exercise and identifies governance mechanisms that might be helpful when thinking about IMF governance reform.

Executive Boards in International Organizations

At least a century ago, governments began to establish intergovernmental organizations to address transnational problems that they could not cope with on their own.² IGOs offer governments several advantages, including a vehicle to engage in sovereignty-sensitive activities, such as surveillance and dispute resolution, which required a neutral agent that could be trusted to treat all countries equally. They also offer governments a way to participate at arm's length in activities—such as development assistance and peacekeeping—that required some separation from domestic politics in order to generate legitimacy and trust (Abbott and Snidal, 1998; Hawkins and others, 2006).

Having decided to create IGOs and to delegate power to them, the problem for governments became how to exercise control over these organizations while preserving their capacity to produce global public goods. Member states faced a principal-agent problem, with national governments in the position of principals and IGOs as their agents.³ How much power

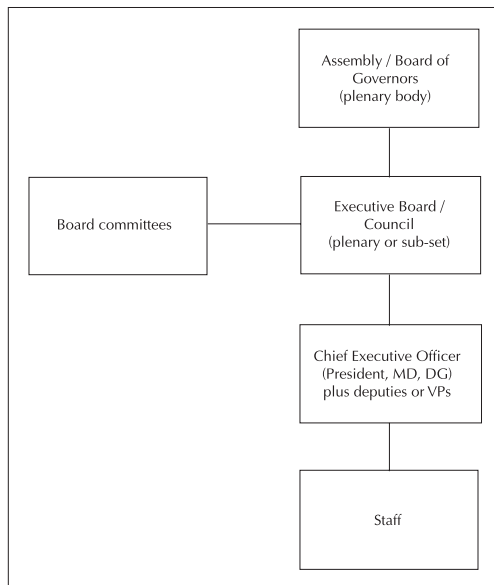
²Between 1909 and 1999, the number of conventional intergovernmental organizations grew from 37 to 251. Union of International Associations, see www.uia.org/statistics/organizations/ytb299.php (accessed September 2007).

³Two factors make this a particularly thorny principal-agent problem. For one, IGOs are single agents, but they receive instruction and oversight from a "collective principal"—multiple states, which do not always agree with each other. Another complication is the long delegation chain ultimately connecting the citizens of the member countries with the staff who actually carry out the organization's mandate. Agents at each link in the delegation chain have incentives to follow most closely the directives of the principal immediately above them, rather than those of more distant principals. The longer the delegation chain becomes, the greater the probability of "agency slack"—that is, of the agent diverging from the preferences of principals.

should be delegated to the IGO? What mechanisms should be in place to ensure that the incentives of the organization's management and staff were aligned with those of member states?

Many of the most important IGOs were given the same basic structure, outlined in Figure 1. In the typical structure, the highest governing body is usually an assembly or board of governors—a political body in which every member state has a seat at the table. Under this plenary body is typically an executive board or equivalent; this can be either a plenary body or one limited to a subset of the membership. (In some IGOs, such as the OECD, the executive-board equivalent is known as a “Council;” this should not be confused with the Council mentioned in the IMF's Articles of Agreement, which would be a ministerial-level body.) Below the executive board is the chief executive officer (CEO) of the institution, variously referred to as director-general, president, or managing director. The CEO, usually appointed by the executive board, is in charge of the day-to-day management of the organization, subject to the board's oversight. As head of the organization, the CEO is in charge of the staff and is ultimately responsible for its work. In many institutions, the CEO is embedded in a larger management structure, composed of a number of vice-presidents, deputy managing directors, or their equivalents.

Figure 1. Typical Governance Structure of an Intergovernmental Organization



Governments and citizens soon came to demand several things from IGOs: effectiveness (fulfilling their mandate), efficiency (fulfilling the mandate in a cost-effective way), voice (giving members adequate representation in decision making), and accountability (the right to hold IGOs to a set of standards and to impose sanctions when these standards are not met). The executive board or equivalent in each organization was central in helping the IGO meet these expectations.

Four Roles of Executive Boards

I argue that the executive boards of IGOs are expected to play a combination of four roles. Two of these—I call them performance police and strategic thinker—are roles executive boards play in other organizations, including private corporations. The other two—labeled here as political counterweight and democratic forum—are particular to IGOs. I describe each, in turn.

The Board as Political Counterweight

Executive boards in IGOs can serve as a “political counterweight” to the technical decisions made by the organization’s management and staff, as a political check by member governments on the organization’s actions and policies.⁴ This involves reviewing every staff decision of importance, judging whether these are consistent with the national interest of the country (or countries) that each executive director represents and, when they are not, taking action to bring them into line. The role of political counterweight assumes that executive directors act primarily or exclusively with their national interests in mind, as defined by the governments that appointed or elected them.

For a board to perform this role effectively, it must have several characteristics. First, board directors must owe their primary allegiance to their national authorities. Board members must have relatively little room to act autonomously from their political masters. Frequent turnover and short tenures for board directors help ensure their loyalty to capitals and keep the directors from “going native” and identifying too closely with the organization’s interests. To exercise political control, directors must also have adequate access to information about what is happening inside

⁴This is not to say that the decisions of an IGO’s staff are always apolitical and based solely on technical considerations. However, the legitimacy of the staff’s influence is based solely on the claim to superior knowledge and technical rationality, and their decisions and advice are provided as if they emanated solely from this source.

the institution. The board must have a bureaucratic machinery of its own, including a secretariat and advisors who can collect, process, and interpret information regularly. Finally, the board needs to be closely involved in all aspects of the organization's business so it can monitor and intervene at a detailed level when political imperatives demand it.

The Board as Performance Police

The second role an IGO executive board is called upon to play is as “performance police”—as monitor and overseer of whether and how management and staff are carrying out the organization's tasks in accordance with some standard collectively agreed by the organization's members. In contrast to the political counterweight role, directors make judgments based on performance standards that are set out *ex ante* by the whole membership, instead of on their individual national interest. Indeed, performance standards may or may not be compatible with members' narrow national interests at a particular point in time. In this role, the board is responsible for setting the standards against which management's performance will be assessed periodically, and ensuring that policies set by the board are implemented fully and in a timely manner. When performance is found to fall short, the board is charged with taking corrective action.

An executive board can serve as an effective performance police only if certain institutional conditions are in place. First, responsibilities and actions of the CEO must be distinguishable from those of the board. If the behavior of CEO and board cannot be observed independently of each other, then the lines of accountability become blurred and the board can no longer evaluate the CEO's performance without also passing judgment on its own performance, generating a conflict of interest. Second, performance standards or benchmarks must be established by the board itself or some outside authority. In addition, the board must have sufficient access to information to assess regularly the performance of the CEO and staff. At the very least, this means reporting requirements for the CEO. Finally, the board must be able to reward or punish management on the basis of performance evaluations, including dismissing the CEO in cases of serious underperformance or personal misconduct.

In the private and non-profit sectors, the performance police role is a fundamental responsibility of executive boards. CEO evaluation by the board has become central to board activities—for instance, 96 percent of S&P 500 firms have a formal process to evaluate the CEO's performance and do so on an annual basis (Spencer Stuart, 2006a: 7). Eighty percent of non-profit executive boards in the United States follow the same practice (BoardSource, 2004: 9).

CEO performance evaluation is no longer just the responsibility of a specialized committee—it is fast becoming a responsibility involving the full board.

The Board as Strategic Thinker

Boards are also expected to play the role of “strategic thinker.” This entails anticipating how the organization’s goals and instruments will be affected by changes in the external environment, formulating strategies for adapting goals and instruments to the changing environment, drawing lessons from experience, and feeding this knowledge back into the organization. In IGOs, “strategic thinking” also entails a larger responsibility not relevant to private-sector firms—directors must also ensure that the organization (and the board itself) is functioning effectively as a catalyst for cooperation among member nations.

For a board to play its role as strategic thinker, it must provide an environment that supports frank and constructive deliberation among board directors. In practice, this means relatively small boards. Corporate governance experts suggest that executive boards should have no more than ten members, with twelve as the absolute maximum (Carter and Lorsch, 2003: 89–91). Once boards get larger than a dozen members, the quality of participation declines, decision making becomes cumbersome, free-rider problems increase, and the effectiveness of the board deteriorates. Private sector firms seem to adhere closely to this principle.⁵ The tendency toward small boards is also evident in the non-profit sector.⁶

A board that can formulate strategy effectively also requires a high level of expertise, institutional memory, and experience. This generally means relatively long terms of office for board members and the recruitment of directors with considerable experience.⁷ Experts believe that in the private sector, directors should be expected to serve at least two three-year terms (Higgs, 2003: 5). The strategic-thinking board should also keep some dis-

⁵Among 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. (Spencer Stuart, 2006a: 10; Spencer Stuart, 2006b: 5; and Spencer Stuart, 2006c: 7.) Among the top 50 Japanese companies, average board size is 13 directors. (*Forbes*, “The Global 2000,” 2007.)

⁶The 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. (BoardSource, 2004: 4.)

⁷Again, private sector boards exemplify this point well: the average board member in an S&P500 firm was 61 years old and in top U.K. firms, executive directors were 50 and non-executive directors were 57 years old, on average. This suggests work experience of 25–30 years. Directors also tend to stay several years; in top U.K. firms, the average length of service for non-executive directors as of 2006 was 3.8 years. (Spencer Stuart, 2006b: 6.)

tance from the day-to-day operations of the organization. If it is submerged in detail, the board will lose sight of strategic priorities and direction. For this reason, corporate boards tend to meet only a few times per year. For example, the typical board of a major business corporation meets six to eight times per year (Spencer Stuart, 2006a: 21).⁸

Finally, a board that is effective at strategy formulation can benefit greatly from the voices of independent directors. Independent directors are described as figures “free from any business or other relationship which could materially interfere with the exercise of their independent judgment” (Combined Code on Corporate Governance, 2006, A.3.2).⁹ Their main contribution is to bring an outside, more objective view to the board’s deliberations, and to reduce the possibility of conflicts of interest. In the private sector, independent, “non-executive” board directors have become the norm.¹⁰ Independent directors tend to dominate sensitive board committees, especially audit and remuneration committees.

The Board as Democratic Forum

Finally, an IGO board is also called upon to serve as a forum for giving voice to the views of individual members. In this role, process matters more than outcome—decisions are judged legitimate only if they are arrived at through a process of deliberation in which all voices can be heard and considered. The use of the word “democratic” here does not imply that members necessarily have equal voting or political power, but that they enjoy an equal right to speak and be heard.

If a board is to perform its role as democratic forum, it must be inclusive: it must have adequate mechanisms for representing, directly or indirectly, the entire membership, and for giving member states a channel to have their voices heard. The board’s rules should safeguard the right of all members to participate meaningfully in the body’s deliberations and should guarantee that dissenting views can be expressed and recorded. Board records should accurately reflect the degree of

⁸The largest number of meetings reported for an S&P500 corporate board in 2006 was 39.

⁹For example, independent directors should not have been former employees of the company in the previous five years, should not have a material business relationship with the company, should not be or represent a significant shareholder, should not have close family ties with any of the company’s directors or senior staff, and should not have significant links with other directors through involvement in other companies.

¹⁰The shift has been dramatic: in S&P500 firms, the percentage of independent board directors has increased from 27 percent in 2001 to 81 percent in 2006. In the U.K., some 62 percent of boards are made up of non-executive directors, nearly all of whom are independent. (Spencer Stuart, 2006b: 5.)

agreement behind decisions, and rules should limit situations in which a minority of the membership can force a controversial decision with little or no board deliberation.

A board with a one-country-one-vote system most closely conforms to the ideal of a democratic forum. Under an egalitarian voting system, board members can interact as equals, and they are compelled to consider the views of their colleagues (or at least of a majority of them). A board may play this role even if it operates on the basis of weighted voting, but its character as a democratic forum declines as voting power becomes more concentrated. At the extreme, when decisions can be pushed through by only a small fraction of the membership, then the largest vote-holders have few incentives to consider the views of the rest of the membership.

Formal rules aside, the culture of the board should encourage meaningful participation, debate, and the voicing of dissenting viewpoints. The chairman should have an explicit mandate and incentives to stimulate and facilitate board debate, as well as to protect the rights of minorities or dissenting voices. Also, members of the board should be able to dissent without fear of retribution—in boards where a “chilling effect” is present, formal guarantees of open debate count for little.

Trade-Offs

Tensions exist among each of the four roles outlined above, because the characteristics required for a board to perform each of the four roles sometimes conflict. For example, a board that functions as an effective strategic thinker prizes debate, expertise, distance from day-to-day management, and independence, but it sacrifices voice and representation by requiring a small number of directors and a lean decision-making structure. A board that serves effectively as political counterweight values close involvement in day-to-day management and a close relationship between the board and political authorities. All this comes at the expense of independence and the distance necessary to think strategically. Meanwhile, a board that serves effectively as a democratic forum prizes open debate, voice, and representation, but sacrifices a significant measure of decision-making efficiency. Finally, a board that serves as a good performance police, in its pursuit of institutional accountability, may reduce the political maneuvering room that members require to align the organization’s policies with their own national interests.

These tensions among the four roles of the board suggest that no unitary executive board can perform all four roles effectively at the same time.

Trade-offs are inevitable, and therefore organizations trying to balance effectiveness, efficiency, accountability, and representation must make choices that inevitably strengthen some board roles but weaken others.

Measuring Board Capacity to Play Its Roles

How can we evaluate which roles an organization's executive board is best equipped to play effectively? In this section, I develop a set of indicators to measure the institutional characteristics necessary to support each role. The proposed indicators and the rationale for their selection are listed in Table 1. These indicators can now be used to make judgments about whether international organizations, including the IMF, are well structured to perform the four roles outlined above. However, they are not meant to measure *actual performance*, but whether institutional characteristics support certain board functions.

Assessing the IMF Executive Board

In this section, I turn to the IMF's Executive Board and apply the indicators just identified. The argument here is that as originally designed, the IMF Board was best equipped to serve the roles of strategic thinker and democratic forum. The Board was less well equipped to serve as a political counterweight, and it was least equipped to play the role of a performance police. Over the succeeding 60 years, however, its capacity to serve as strategic thinker and democratic forum weakened steadily, while the Board's capacity to serve as political counterweight strengthened significantly. The Board's potential to act as performance police—never strong—did not improve over time.

When considering the strengths and weaknesses of its Board, the IMF's mandate should be kept in mind. Originally set up as guardian of the postwar system of fixed exchange rates, after 1971 the Fund's main activities were three—lending members Fund resources to overcome balance-of-payments difficulties, conducting regular surveillance of members' economic policies (through so-called Article IV consultations) and of the world economy, and providing technical assistance to members.

Political Counterweight and Strategic Thinker

From its inception, the IMF's Executive Board was meant to serve as the institution's primary locus of decision making. Under the Fund's Articles of

Agreement, the Board was made responsible “for conducting the business of the Fund” and for exercising the powers delegated to it by the institution’s highest governance organ—the Board of Governors (Articles of Agreement, Article XII, Section 3(a)). At their first meeting in 1946, the Governors delegated to the Executive Board almost all their powers.¹¹ The Managing Director, who is the chief executive officer of the institution, acts under the “general direction” of the Executive Board.

Figure 1 in Chapter 1 of this compendium illustrates in a stylized manner the governance structure of the IMF, including its key formal and informal governing bodies. The Board of Governors, at the top, is the highest governing body. The International Monetary and Financial Committee (IMFC), composed of a subset of 24 governors, is an advisory body to the Board of Governors. The IMFC (in its previous incarnation, the Interim Committee) was not part of the original governance structure, but was established in the 1970s. At the center are the Executive Board and the Managing Director, who chairs the Board and is in charge of the staff. The membership is represented in the Board of Governors, the IMFC, and the Executive Board. On the left are informal country groupings (the so-called “Gs”), which have played an important but informal role in steering policy and strategy and the IMF.

Not surprisingly given its position in the governance structure, the character of the Executive Board was controversial among the Fund’s founders. Would executive directors would be government representatives tasked with ensuring that all Fund decisions were in accord with their national priorities, or would they be relatively independent “wise men,” overseeing the institution from a distance but leaving most of the Fund’s work to the staff’s technical expertise? Keynes, who represented the British Treasury at Bretton Woods, endorsed the latter option:

Some of us . . . had been hoping that the officials of the two bodies [the Fund and World Bank] would, in the course of time, come to regard themselves as primarily international officials, taking a world objective outlook, and only where clearly necessary grinding their own national axes. So one would have wished to minimize rather than maximize, their national representative character and their position as delegates from outside authorities. (Quoted in Hexner, 1964: 84.)

¹¹The governors retained the power to approve quota increases, SDR allocations, membership applications, and amendments to the Articles of Agreement and By-Laws. Voting on these issues generally takes place by mail ballot, rather than during the Annual Meetings.

Table 1. Indicators for Measuring Capacity to Play Board Roles

| Role of the Board | Indicator | Rationale |
|-------------------------|--|--|
| Political counterweight | Number of single-country directors (or directors of multi-country constituencies in which a single country is dominant) as percent of total. | Single-country directors are more likely than multiple-country directors to be influenced by their governments, regardless of whether they are appointed or elected. Therefore, the larger the share of single-country directors, the greater the degree of direct political control by shareholders and the lower the degree of board autonomy. |
| | Mandated term length. | The shorter the term of office, the lower the probability that directors will develop the knowledge and credibility within the institution to operate autonomously from their capitals; also, the lower the probability that directors will “go native” and side more closely with management and staff. |
| | Actual length of directors’ terms of service. | Same as previous. |
| | Average age of directors. | The younger the director, the longer their future career back home after board service is over, and therefore the more sensitive they will be to pleasing their bosses back home; younger directors are likely to have less room for independence than more senior ones. |
| | How can directors be removed by their national authorities? | The more easily directors can be removed, the more sensitive they have to be to the interests of their authorities, and the more closely they will represent the views of their capitals. |
| | Are qualifications for directors specified? | The more specific are director qualifications, the more difficult it is for governments to appoint directors purely on the basis of political loyalty. |
| | Staff size of directors’ offices. | The more staff and resources directors have, the greater their capacity to gather and process information about the activities of management and staff. |
| | Annual cost of running the board (as a per cent of net administrative budget). | Same as previous. |

Table 1 (concluded)

| Role of the Board | Indicator | Rationale |
|-------------------|---|---|
| Democratic forum | Ratio of board size to total membership. | The closer this ratio is to 1, the greater the capacity of any one member to participate directly in board discussions. |
| | If there are multi-country constituencies, average number of countries per constituency. | The larger the constituency, the greater are the demands placed on the director's time and resources to consult constituency members, and the more difficult it is to represent their interests and make their voice heard effectively on the board. |
| | Is there a rotation system within constituencies? | Rotation schemes give members in constituencies more opportunities to have direct representation on the board. |
| | Voting system (egalitarian or weighted). | The more egalitarian the voting system on the board, the greater the incentive members have to consider the views of their peers, as they need to build majorities to make decisions. |
| | Minimum number of countries/ board directors needed to secure a majority of the required voting power, as a percentage of total membership/total directors. | The larger the required minimum, the greater the incentive members have to consider the views of their peers, as they need their vote to secure a decision. |
| | Are special majorities required for certain kinds of decisions? | The higher the special majorities (e.g., 60%, 75%, 85%), the greater the incentive members and directors have to consider the views of their peers. |
| | Does board take formal votes or does it operate on the basis of consensus? | If the board operates on consensus, the greater the incentive members have to consider the views of their peers. |
| Strategic thinker | Board size. | The smaller the board, the higher the quality of interaction among directors and the more efficient the decision-making process, which makes strategy formulation easier. |
| | Meeting frequency. | The less frequently the board meets, the farther removed it is from the day-to-day business of the institution, and the better its vantage point for strategic thinking (though at some point, lack of familiarity with the institution becomes a problem). |

| | | |
|--------------------|--|--|
| | Mandated term length. | The longer the term of office, the higher the probability that directors will have institutional knowledge and expertise, both necessary for effective strategy formulation. |
| | Actual length of service of directors. | Same as previous. |
| | Average age of directors. | Same as previous. |
| | Are qualifications for directors specified? | The more specific are director qualifications, the greater the probability that directors will be appointed based on merit and expertise. |
| | Annual cost of running the board (as a per cent of net administrative budget). | Same as previous. |
| Performance police | CEO is also chairman of the Board? | If the two roles are fused, lines of responsibility become blurred and evaluation of the CEO by the board becomes more difficult. |
| | Does the board have a formal review process for the CEO's performance? | Board must have access to information about the CEO's performance to evaluate performance. |
| | Are there performance standards for the CEO? | CEO must be aware of the standards by which he/she will be judged. |
| | Is the CEO required to report on his/her performance to the board? | Same as previous. |
| | Can the board reward/penalize CEO for his/her performance? | Board must be able to create incentives for good CEO performance. |

Keynes hoped to endow the Board with some of the characteristics we have already identified as necessary for the “strategic thinker” role and to minimize its character as political counterweight. He lobbied hard for a non-resident, high-level board, composed of senior officials from national treasuries and central banks. They would be “deputy governors of central banks” or “very responsible people in the heart of their own institutions” (Boughton, 2001: 1032). Directors would only serve the Fund on a part-time basis and would not be immersed in the day-to-day operations of the institution; they would be close to policymaking in their own capitals, but would be senior enough to be able to take independent stances when necessary.

However, the U.S. Treasury preferred board characteristics that accorded more closely with those of a political counterweight, and in the end, this vision prevailed. The result was a resident, twelve-member board based in Washington, D.C., and meeting “in continuous session.” It was composed of full-time executive directors who met regularly some three times per week, on average. Because they would be based in Washington and occupied full time at the Fund, directors would not be senior officials in their governments (though they could be former senior officials). While the Articles of Agreement specified that the Managing Director and members of the Fund’s staff “shall owe their duty entirely to the Fund and to no other authority,” there was no requirement that individual Directors owe their allegiance entirely or partially to the Fund (Articles of Agreement, Article XII, Section 4(c)).¹² The Board was charged with making all decisions on bilateral surveillance (Article IV consultations) and the use of Fund resources.

In addition, the five members with the largest voting shares—the United States, United Kingdom, France, India, and China—were given the right to appoint their own executive directors. (India and China were later replaced by Germany and Japan in exercising this privilege.) These five directors served at the pleasure of their governments and could be dismissed at any time for any reason. The remaining seven directors represented the rest of the Fund’s 39 member countries, which were organized in multi-country “constituencies.” Directors representing constituencies were elected by the group for renewable two-year terms, and

¹²However, some scholars have argued that the fact that executive directors are granted legal immunity by the IMF with respect to acts performed in the exercise of their official duties, and that this immunity can only be withdrawn by the Fund (not by their governments), is evidence that they are officials of the Fund rather than delegates of their governments. See Gianviti (1999).

legally could not be removed until their term expired. No qualifications for executive directors were specified in the Articles of Agreement.

Despite the success of the political counterweight model, the Executive Board in its early years had several characteristics of the strategic-thinking board. With twelve directors, it resembled in size today's corporate boards. Also, the first generation of directors was a very experienced group; its members had left very senior posts in their governments before coming to the Fund.¹³ Their attendance at the Board was poor—which suggests that, in practice, the early Board resembled the non-resident board that Keynes had envisaged.¹⁴ Finally, thanks to the relatively impractical and expensive communications technology of the time, directors enjoyed considerable autonomy from their capitals.

Over the next 60 years, the character of the Board changed considerably. The Fund's membership quadrupled to 185, while the size of the Board doubled to 24 directors. The five largest shareholders retained their own directors, and three additional members—Russia, China, and Saudi Arabia—chose to elect a director to represent them alone.

Technology changed rapidly as well. The advent of fax machines and eventually cellular telephones and e-mail strengthened the capacity of governments to monitor and steer the activities of their directors in Washington. Capitals could now communicate instantly with their directors and could also review electronically—in real time—the same Board documents their directors were reading. This reduced directors' latitude to act autonomously.

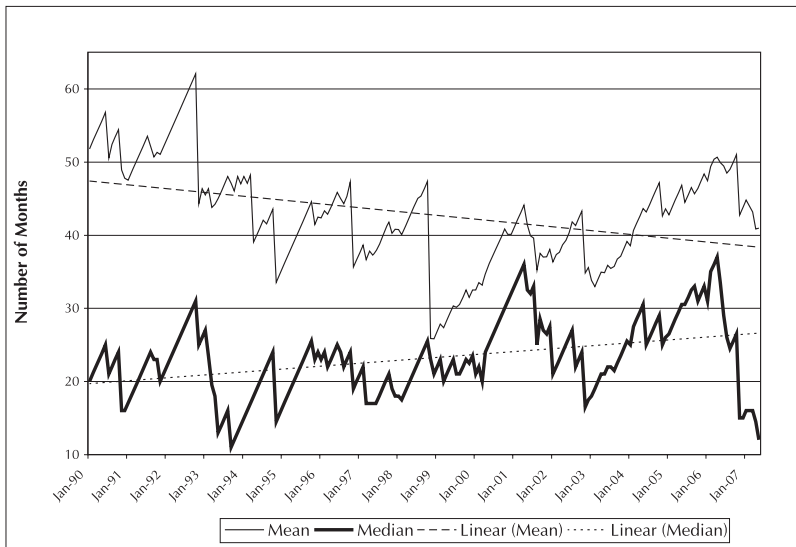
As the membership grew, the volume of the Fund's surveillance, technical assistance, and lending work multiplied. The Board gradually shifted from a decision-making, "executive" body into one that could only review and approve decisions by Management and staff on the basis of relatively superficial analysis and discussion. The Board was forced to devote more and more of its time to the day-to-day business of the Fund and less to strategy formulation and to monitoring policy implementation. Constantly immersed in detail, the Board lost some of the perspective needed to think about the "big picture" issues confronting the Fund in a changing world economy.

¹³The first generation of directors included one former vice-minister of finance, one under-secretary of state for finance, and three directors, two commissioners, and one general manager, all from central banks (Horsefield, 1969: 138).

¹⁴According to a survey of Board attendance in the 1940s, only three executive directors were present at more than 75 percent of the meetings and three directors attended less than 25 percent (Horsefield, 1969: 167).

What about the length of directors' terms of service? In the past two decades, actual terms of service have fluctuated considerably, but the mean "age" of the Board—the average amount of time directors have served on the Board at a given point in time—has declined by nearly a year to just under 40 months, as shown in Figure 2. These numbers are skewed by a handful of directors who have remained on the Board for extraordinarily long periods, however.¹⁵ If we take out these outliers and look at *median* tenure, the number is about 23 months in the 1990–2007 period.¹⁶ This means that although directors' terms are renewable, in practice few countries or constituencies keep their directors in place for more than their initial two-year terms. As we will see, these terms are shorter than those of directors in most other IGOs studied here.

Figure 2. IMF Directors' Length of Time in Office, 1990–2007



Source: Based on data from IMF Secretary's Department.

¹⁵For example, Brazilian Executive Director Alexandre Kafka served on the Board for 32 years. When he retired in 1998, the average "age" of the Board dropped precipitously from 47 months to 25.

¹⁶Calculations are based on data provided by the Secretary's Department. Directors' length of service rises if we include in the calculation the time that some spent as alternates before becoming directors. Including the time served as alternates, the average time on the Board between 1990 and 2007 increases to 54 months, while the median rises to 39 months.

This degree of Board turnover means that by the time directors have mastered the complexities of Fund operations, they have little time left to put their expertise to productive use. It also means that the Board depends heavily on two or three long-serving directors who are repositories of institutional knowledge, and that when they leave, the Board suffers a sharp decline in expertise and human capital. All this hinders the capacity of the Board to think strategically about the direction of the institution. It also makes directors more dependent on instructions from capitals and on the views of staff and management.

Democratic Forum

What about the Board's role as a democratic forum? The Board began as a compact body where aggregating and voicing members' positions was relatively easy—a dozen directors represented 44 member countries, and multi-country constituencies represented, on average, around 5.6 countries. With the quadrupling of the Fund's membership and the doubling of the Board's size, voice and representation became more difficult. The ratio of Board to membership size fell from 0.27 in 1946 to 0.13 today. The average size of a multi-country constituency grew to 10.8 countries, and the median size to nine (the range is four to twenty-four countries). The problem of crowded constituencies was compounded by the increase in the number of single-country constituencies from five to eight—a third of the Board's seats.

When the Fund was founded, the distribution of voting power among individual chairs was highly unequal.¹⁷ Just three chairs (those controlled by the United States, United Kingdom, and France), or about 6 percent of the membership at the time, held over 50 percent of the voting power. Today, voting power is less concentrated, but remains very unequal. Voting power ranges from 16.9 percent for the U.S. chair to 1.4 for the largest African constituency. Assuming everyone casts a vote, support of at least eight chairs representing about a fifth of the total membership is enough to secure a majority of the voting power. While special majorities

¹⁷Voting power is allocated according to each member's quota. While formal voting is rare and the Board operates on the basis of "consensus," Board decisions are determined by a preponderance of the weighted votes, even if no votes are formally cast. Whether decisions are reached with unanimity, with broad agreement, or only with a simple majority of the voting power depends largely on the judgment of the Managing Director, who chairs the Board. Voting weights also affect representation within constituencies. In some constituencies, voting power determines which country or countries sit in the director's chair, which fill the position of alternate, and which countries are to get staff positions as senior advisors and advisors to directors.

(of 70 and 85 percent) are needed for some decisions, a simple majority is sufficient for most decisions, including many of the most important ones involving the ordinary business of the Fund, such as the use of the institution's resources.¹⁸

Because most countries are represented on the Board as part of multi-country constituencies, the practices within constituencies are critical to the quality of representation (Woods and Lombardi, 2006; Martin and Woods, 2005.) Whether the words and actions of a director representing a multiple countries faithfully reflect the views of the governments represented depends on a variety of factors, including the number and diversity of the countries in the constituency, the distribution of voting power within the constituency, and the “culture” of the constituency—that is, the formal and informal consultation mechanisms that have developed over time among the members.

Voting-power inequality *within* constituencies is significant. In three constituencies—those chaired by Italy, Canada, and India—voting power is highly concentrated; the largest vote-holding member has more than 75 percent of the constituency's votes. In another six constituencies, the largest vote-holding member has between 40 and 75 percent of the votes, and in seven constituencies the vote distributions are more egalitarian (see Annex). In eight of the 16 constituencies, the largest member has more than twice the voting power of the second largest member.

Potential gaps in voice and representation are especially acute in the eight constituencies that mix countries that use Fund resources and those that do not. Here, the interests and preferences of member states are more likely to conflict. In these constituencies, the quality of representation for the Fund's smallest (and often poorest) shareholders depends largely on whether the dominant countries in the group select a director who is interested in playing the role of active and fair representative. This can often be a matter of luck, rather than institutional design.

Another important factor in the quality of voice representation for the smallest members is the personal judgment of the chair of the Board (i.e., the MD) who plays a crucial role, as he is responsible for determining the “sense of the Board” during meetings and deciding when consensus has been reached on a particular decision. Thus, the MD's role as protector of minority voices is key—the MD can force through decisions strictly on the basis of simple majorities, or he can work to build wide agreement or to postpone a decision until this emerges. Another crucial aspect of voice is

¹⁸Special majorities are required for some 39 types of decisions. Decisions requiring special majorities are not necessarily the most sensitive or important (see Mountford, Chapter 2 in this volume).

the preparation of the “summing up,” as the main document that captures where the Board stands on a certain issue or decision. It is largely up to the Chair, assisted by the Secretary, to determine the extent to which minority viewpoints are reflected in the summing-up of a meeting.¹⁹

Performance Police

As performance police, the IMF’s Board is, and always has been, poorly equipped. According to the Articles of Agreement, the Managing Director operates under the “general direction” of the Executive Board. However, the Articles are silent on whether and how the MD’s performance should be evaluated. There are no performance standards, no reporting requirements, no formal performance review, and no performance contract.²⁰

The only relevant innovations in this area have been the introduction of a codes of conduct for staff (1998) and for Board members (2000). The terms of appointment of the current MD specify that he must abide by the staff code of conduct.²¹ A Board Ethics Committee was also established to oversee the implementation of the Board’s code of conduct. The Board itself has no self-evaluation process, nor is its performance evaluated by any other body other than the extent to which members evaluate the performance of the Directors which represent them.

There are at least three reasons for this gap in Fund governance. The first is the relative difficulty of producing performance benchmarks for an institution with multiple functions as diverse as surveillance, lending, and technical assistance. Unlike for a business firm, there are no simple metrics such as price-to-earnings ratios or profits with which to measure Fund performance.

The second problem has to do with blurred lines of responsibility. The Board and the MD exercise “separate but closely related powers,” and the Board is ultimately responsible for determining the precise scope of the MD’s powers (Gianviti, 1999: 49). In practice, however, this is not a neat distinction. In his dual roles as CEO and chair of the Board, the MD does not simply take the Board’s decisions and execute them. The MD also helps shape those decisions, advises the Board, lobbies directors in private, has significant control over the Board’s agenda, and ultimately—as the chair of the Board—determines when a decision has been made. This

¹⁹On this point, see Chelsky (Chapter 8 in this volume).

²⁰Executive directors have committed to devising a performance contract for the current MD.

²¹Terms of Appointment of Dominique Strauss-Kahn as Managing Director of the International Monetary Fund, November 2, 2007.

overlap means that the Board cannot pass judgment on the MD's performance without a conflict of interest, unless it evaluates Management in areas where the MD has sole responsibility.

The third problem is that, while the Board technically appoints the MD, in practice the selection process has historically been opaque and ultimately determined by negotiations among G-7 members and other European shareholders.²² Presumably, the removal of an MD would require a similar negotiation among major shareholders. This means that the Board is not in a position to objectively pass judgment on the MD nor to reward or sanction him for performance.

In conclusion, today's Board is best equipped to serve as a political counterweight, and the characteristics that support that role for the Board have strengthened gradually since the Fund's creation. The characteristics supporting the Board's role as democratic forum have deteriorated over time, largely as a result of membership enlargement and the expansion of constituency size. Voting power has become more diffuse, but remains highly unequal. The characteristics supporting the Board's role as strategic thinker have also eroded over time, and today this is one of two roles for which the Board is least prepared, largely as a consequence of its size and high turnover. Finally, the Board was never well equipped to serve as performance police, and today remains least well prepared to carry out this role.

The IMF in Comparative Perspective

Having examined the IMF's Board in some detail, in this section I place the Fund's governance arrangements in a wider context. I focus on a sample of eleven international organizations, chosen because they operate in the same or similar sectors as the IMF and because they share at least one of the Fund's three institutional functions—surveillance, provision of technical assistance, and lending.

The sample includes six multilateral development banks (MDBs), including the World Bank, whose governance structure closely resembles that of the Fund. The sample also includes the Bank for International Settlements (BIS) and the Organization for Economic Cooperation and Development (OECD). Like the Fund, these two organizations are involved in the surveillance of international financial markets and national economic policies, respectively. Also included are three IGOs that, like the Bretton

²²On the selection process, see Peretz (Chapter 11 in this volume).

Woods institutions, have near-universal membership, though they operate in sectors other than international financial and monetary affairs. Two of these—the United Nations Development Program (UNDP) and the World Health Organization (WHO)—perform surveillance and provide technical assistance, like the Fund. The Global Environment Facility (GEF) is different from the other organizations listed here because most of its financing is disbursed as grants, not loans. However, the GEF is included because it offers one of the more innovative governance structures among IGOs. The full sample is shown in Table 2.

Table 2. Sample of Inter-Governmental Organizations and Functions Shared with IMF

| Organization | Policy Area | Function | | |
|---|------------------------------------|--------------|----------------------|----------------|
| | | Surveillance | Technical assistance | Lending |
| International Monetary Fund | International finance | ✓ | ✓ | ✓ |
| United Nations Development Program | Development, trade, and investment | ✓ | ✓ | |
| Organization for Economic Cooperation and Development | Development, trade, and investment | ✓ | ✓ | |
| World Health Organization | Global health | ✓ | ✓ | |
| Bank for International Settlements | International finance | ✓ | ✓ | ✓ |
| World Bank | Development lending | | ✓ | ✓ |
| African Development Bank | Development lending | | ✓ | ✓ |
| Inter-American Development Bank | Development lending | | ✓ | ✓ |
| European Investment Bank | Development lending | | ✓ | ✓ |
| Asian Development Bank | Development lending | | ✓ | ✓ |
| European Bank for Reconstruction and Development | Development lending | | ✓ | ✓ |
| Global Environment Facility | Environmental protection | | | ✓ ¹ |

¹The GEF disburses funding primarily as grants.

The World Trade Organization (WTO) was not included in the sample because from a governance standpoint, it differs from the rest of the organizations studied here. In those organizations, member states delegate significant authority to an executive body and a CEO. In contrast, the WTO is a “member-driven” organization in which little authority is delegated to the Secretary General and the Secretariat. Instead, nearly all the WTO’s councils and committees—including the General Council, which handles WTO’s day-to-day operations—are plenary committees, which means that decision-making always involves representatives from each of the 150 members. The absence of a non-plenary executive body has been identified as one of the most important limitations on the capacity of the WTO to make decisions efficiently (Sutherland and others, 2004: Chapter VII). These unique characteristics make the WTO difficult to compare meaningfully with the rest of the IGOs in the sample, where the delegation of authority is a key feature. The WTO is therefore left out of the analysis, though references are made to it at several points.

Three Models of Governance

How to compare and contrast meaningfully this very diverse set of IGOs? I classify them based on the same executive-board characteristics that were outlined above and applied to the IMF. The result is that the eleven organizations fall into three categories, or “models” of governance, each with a different configuration of strengths and weaknesses. I call the three models the (1) delegate-and-control model, (2) the direct representation model, and (3) the constituency-based oversight model.

Delegate-and-Control Model

The organizations in this category include both the World Bank and the Fund, as well as major regional development banks—the Inter-American Development Bank (IADB), the African Development Bank (AfDB), the Asian Development Bank (AsDB), and the European Bank for Reconstruction and Development (EBRD). The pioneers of this model were the architects of the Bretton Woods institutions, but the model was adopted and replicated by the founders of regional development banks in the 1950s and 1960s.²³

The central feature of this model is that power and representation are delegated to a relatively small executive board that exercises close control over the activities of the institution. Specifically, organizations based on

²³For an informative history of multilateral development banks, see Kapur and Webb (1994: 229–50).

the delegate-and-control model have the following characteristics: (1) a compact executive board (relative to the total membership size) whose members are elected or appointed by member countries, and which is in continuous session (resident board); (2) a system in which most members are represented indirectly through multi-country constituencies and share a single director; (3) a CEO who is also chair of the board, and (4) a decision-making system based formally on “consensus” but underpinned by weighted voting. Table 3 provides key indicators for the five IGOs in the sample that fall into this category, including the IMF.

While there are subtle differences among the five MDBs that adhere to the delegate-and-control model, some useful generalizations are possible. As the name suggests, executive boards following this model are best equipped to perform the role of political counterweight. Small boards and weighted-voting systems allow for efficient decision-making, and executive directors function primarily (and often exclusively) as representatives of their member countries.²⁴ Communication and relations between directors and their capitals tend to be frequent and close. As members of resident boards, meeting one to three times per week, directors are closely involved in most aspects of their organization’s policy and operations. Directors in all MDBs also have their own staff, which increases their capacity to collect and process information about what is happening in the organization. This level of involvement is reflected in the resources the boards consume as a proportion of the organizations’ net administrative costs—between 4 and 7 percent, as shown in Table 3.

Certain characteristics of this model suggest that directors have relatively little autonomy from the countries they represent. Directors are typically officials in their early fifties, which means that they still have future career plans that they must be concerned about when they return to their capitals. Mandated terms of service are short (two to three years), and many directors serve only one term. Qualifications are not specified in the charters or are described only in general terms, typically with the phrase “directors shall be persons of high competence in economic and financial matters”. This allows members wide latitude in whom they select. Also, up to a third of all directors represent only one country, which means that they are likely to be closely controlled by their capitals.

Executive boards in this category are not well suited to play the role of strategic thinker. While some smaller boards may facilitate high-quality

²⁴The World Bank’s Intranet states that “An Executive Director (or Alternate) fulfills a dual function, as an official of the Bank and as a representative of the member country or countries that appointed or elected him.” However, as for the IMF, this dual role is not reflected explicitly in the Articles of Agreement or By-Laws.

Table 3. Selected Indicators for Inter-Governmental Organizations Following the Delegate-and-Control Model

| | IMF | World Bank | AsDB | AfDB | IADB | EBRD |
|---|---|---|--------------------|-------------------------|--------------------|--------------------|
| Membership size (number of countries) | 185 | 185 | 66 | 77 | 47 | 63 |
| Staff or secretariat size | 2,600 | 13,000 | 2,000 | 1,000 | 1,850 | 1,570 |
| Size of executive board | 24 | 24 | 12 | 18 | 16 | 23 |
| Ratio of board size to total membership | 0.13 | 0.13 | 0.18 | 0.24 | 0.34 | 0.37 |
| Frequency of board meetings | 3/week | 2/week | 1–2 /week | 1/week | 2/week | 1–2/mo |
| Annual cost of running the board (as a % of net administrative budget), 2006 ¹ | 6% | 3% | 7% | n/a | 4% | 5% ² |
| Mandated terms of office for directors | No term limits for appointed EDs; 2 year, renewable terms for elected EDs | No term limits for appointed EDs; 2 year, renewable terms for elected EDs | 2 years, renewable | 3 years, renewable once | 3 years, renewable | 3 years, renewable |
| Average age of directors | 53 | 53 | 54 | n/a | n/a | 55 |
| Voting system | Weighted | Weighted | Weighted | Weighted | Weighted | Weighted |
| Resident or non-resident board? | Resident | Resident | Resident | Resident | Resident | Resident |
| Number of single-country chairs as a % of the total | 33% | 33% | 25% | 5.5% | 12.5% | 35% |
| Average size of multi-country constituencies | 10.9 | 10.9 | 7.2 | 4.5 | 3.8 | 3.7 |
| Highest number of countries represented by a single director | 24 | 24 | 11 | 9 | 7 | 9 |

| | | | | | | |
|---|-------|-------|-------|-------|-------|------|
| Minimum number of countries needed for a simple majority of voting power, as a % of total membership ³ | 18.1% | 18.1% | 41.8% | 36.2% | 10.6% | 9.5% |
| Minimum number of directors needed for a simple majority of voting power, as a % of total directors ⁴ | 33% | 33% | 50% | 45% | 19% | 26% |
| CEO is also chairman of the board? | Yes | Yes | Yes | Yes | Yes | Yes |
| Performance standards for CEO? | No | No | No | No | No | No |

¹Source: 2006 Annual Reports for World Bank (IBRD), AsDB, IADB; IMF Budget Office; and author's calculations.

²Author's estimate. Salaries of executive directors and alternates (€7.5 million) alone accounted for about 3.5 percent of general administrative expenses in 2006. Assuming an average salary of €50,000 for the staff of 76 that supports the Board, the number would rise to 5 percent of general administrative expenses. Travel to and from Board meetings is likely a negligible expense.

³Based on the number of countries represented by the directors with the most voting power; note that at the AsDB and EBRD, directors are allowed to split their vote.

⁴Again, note that directors at the AsDB and EBRD can split their vote.

interaction among directors, most boards are significantly larger, especially those of the Bretton Woods institutions. In addition, all of these resident boards are too closely engaged in the day-to-day business of the institution to have good strategic vantage point. Finally, low levels of board independence render these boards effective political counterweights, but because they are constantly focused on attending to the interests of their governments, directors have less time and freedom to think strategically from the perspective of the institution as a whole.

As democratic forums, boards in this category are also relatively ineffective. Because they are small relative to the overall size of the membership, the voice and voting power of small shareholders is diluted in multi-country constituencies, whose size ranges from 3.7 to 10.9 countries per constituency, on average. With the exception of the EBRD and the AsDB, where vote-splitting is allowed, countries in these constituencies must share a single director, who casts the constituency's votes as a single unit.

Small boards and weighted voting mean that a few large shareholders may exercise considerable influence. Concentration of voting power is most dramatic in the IADB and EBRD, where a majority of total voting power is held by only 10 percent of the membership (or a fifth and a quarter of directors, respectively). To secure a simple majority in the Bretton Woods institutions requires support from as little as 18 percent of the membership. By contrast, in the African and Asian development banks, voting power is significantly more diffuse. To be sure, the boards of all of these MDBs operate on the basis of "consensus" and formal voting is rare; however, the consent of the largest shareholders is usually necessary, particularly on controversial issues, and the concentration of voting power still affects decision making, albeit in a subtle way.

The weakest role of these boards is as performance police. Their charters do not set forth an evaluation mechanism for the CEO, and in practice, none has performance standards for management or a formal process of evaluation. As already discussed in the case of the IMF, this is partly because identifying practical performance measures is difficult; the actions of the CEO and the board are not easily separable (especially since the CEO chairs the board) and because the CEO often is not chosen by the board in practice.

Direct Representation Model

Organizations in the second category follow what I call the direct representation model. Three organizations in our sample adhere to this model of governance: the European Investment Bank (EIB), the Organization for Economic Cooperation and Development, and to a lesser extent, the Bank

Table 4. Selected Indicators for Inter-Governmental Organizations Following the Direct-Representation Model

| | EIB | OECD | BIS |
|---|--|--|---|
| Membership size (number of countries) | 28 | 30 | 55 |
| Staff or secretariat size | 1,330 | 2,500 | 550 |
| Size of executive board | 28 | 31 | 21 |
| Ratio of board size to total membership | 1.00 | 1.03 | 1.00 (founding members) |
| Frequency of board meetings | 10/year | 12/year | 6/year |
| Annual cost of running the board (as a % of net administrative budget), 2006 ¹ | > 1% | n/a | 1.4% |
| Mandated terms of office for directors | 5 years renewable | At the discretion of each government; in practice, ambassadors have served about 3.5 years, on average | The 6 ex-officio directors are appointed for their terms as central bank governors; the rest are appointed for a renewable 3-year term ² |
| Voting system | Double-majority ³ | Simple majority; one country, one vote; QMV for key issues ⁴ | Simple majority; one board vote per board member ⁵ |
| Resident or non-resident board? | Non-resident | Resident | Non-resident |
| Number of chairs representing single countries as a % of the total | 96% (one represents the European Commission) | 97% (one represents the European Commission) | 100% |
| CEO is also chairman of the board? | Yes | Yes | No |
| Performance standards for CEO? | No | No | No |

¹Source: 2006 annual reports for EIB and BIS.

²The Board is composed of six ex-officio directors—the central bank governors of the founding countries (United States, United Kingdom, France, Germany, Italy, and Belgium)—who serve for the duration of their respective terms as central bank governors. Each of them may appoint an alternate to represent them in their absence, and they may also appoint a representative drawn “from finance, industry, or commerce,” who serve for a three-year term. Finally, up to nine other directors can be elected to the Board by a two-thirds majority of the shareholding, non-ex-officio central bank governors. As of December 2006, only 19 of the 21 Board seats were filled. Currently, the seven elected governors are from China, Mexico, Canada, Japan, Sweden, Netherlands, and Switzerland.

³Under the EIB’s voting system each director has one vote. Decisions require support from at least one-third of members entitled to vote and members who represent at least 50 percent of subscribed capital. Qualified majority decisions require 18 votes in favor and 68 percent of the subscribed capital.

⁴For difficult cases, the Council has the option of unanimously agreeing to categorize an issue as a “special case,” and qualified majority voting (QMV) rules apply. Under QMV, the Council can approve a decision if it is supported by 60 percent of the member countries, unless opposed by three or more members who represent at least 25 percent of contributed capital. This effectively gives a veto to the U.S. (which contributes 24.98 percent of the capital) if it can enlist the support of any two other countries.

⁵In practice, this voting scheme gives a controlling majority to the founding members, which are guaranteed a majority by virtue of their ability to fill two seats on the Board each, for a total of 12 of the 21 seats.

for International Settlements (BIS). Selected indicators for these organizations are found in Table 4 above.

Admittedly, these three institutions are very different from each other. The Luxembourg-based EIB is the world's largest multilateral development bank, and it has adopted governance arrangements that vary in significant respects from those of its peers. The OECD is best described as a research organization and as an institutional platform that supports and coordinates an extensive web of technical networks and committees. Finally, the BIS—often called “the central bankers’ central bank”—was chartered as a private company and is best known today for its surveillance of the international financial system, its research and standard-setting activities, and for its role as a meeting place for central bank governors. These organizations are also diverse in terms of their governance arrangements. The EIB and BIS have non-resident boards composed of senior government officials, while the OECD has a Council composed of resident ambassadors.

But despite their differences, all three organizations share the basic elements of this governance model: (1) a “plenary” executive body in which all members are directly represented; (2) a board or equivalent that meets only a few times per year, typically monthly or bi-monthly; and (3) voting systems that either rely completely on the principle of one-nation-one-vote or combine it with some form of double-majority voting. The characteristics of the direct representation model weaken somewhat the board's role as political counterweight, especially when compared with the delegate-and-control model. Meeting once per month at most, these boards are relatively distant from the operations of the institution and leave more of the day-to-day business to the management. This is especially true of the BIS, where the central bank governors who constitute the board come to Basel every two months and have little to do with the management of the institution; this is left to the General Manager, who reports regularly to (and does not chair) the Board. The EIB's Board meets more frequently and takes a more active role in management, but much less so than in other MDBs—indeed, EIB is the only one of these organizations with a non-resident Board. The less intensive engagement of these boards is reflected in the costs of running them—the cost at both EIB and BIS is less than 1.5 percent of the administrative budget of each institution.

The OECD's Council is more involved and considerably more costly. It has resident status and large ambassadorial support staff. However, with monthly meetings, the Council is not nearly as involved as the boards of the IMF or the World Bank.

Perhaps because member states in this model exercise less direct control over the institution at the board level, governments have devised other ways to exert control, usually further down the chain of delegation. The EIB exem-

plifies this point. At the EIB, the Board is non-resident and relatively removed from day-to-day affairs, and the business of the institution is conducted by a nine-member Management Committee composed of the President and eight vice-presidents. Management Committee members are elected by the Board of Governors, and they represent specific countries or constituencies of countries based on formal nationality requirements.²⁵ Presumably, formal nationality rules mean that the members of the Management Committee are more likely to act on the basis of their governments' national interests than are the members of organizations in which senior management figures do not face formal nationality quotas. This contrasts with the delegate-and-control model, where the board exercises political control, and the decisions of management and staff are less likely to become politicized.

Similarly, at the OECD, the Council may meet only on a monthly basis, but national politics penetrate more deeply into the structure. Much of the organization's work is prepared by staff working closely with committees, which are composed of representatives from capitals; government officials from member countries are present at the organization's working level.

Two factors make these organizations better equipped for strategic thinking compared to those following the delegate-and-control model. First, greater distance from day-to-day management allows their boards to focus better on strategic issues. Second, board members stay longer in their posts, which gives them more expertise and institutional knowledge. EIB directors serve renewable five-year terms (in practice, they tend to serve for more than five years). The core members of the BIS board (more on what this means below) are elected for the entire duration of their terms as central bank governors, which in practice can exceed a decade, and the elected members of the BIS board have renewable, three-year terms. At the OECD, ambassadors serve at the pleasure of their governments, but in practice, OECD ambassadors remain at their posts for long periods—since the mid-1980s, the average term of an OECD ambassador has been 41.4 months, or almost three and a half years.²⁶ However, there is a trade-off between direct representation and strategic thinking. At between 21 and 31 members, these boards are too large for efficient decision-making and strategic planning.

²⁵Four vice-presidents always come from each of the Bank's four largest shareholders (Germany, France, Italy, and the United Kingdom), and the rest come from specified constituencies, each with its own scheme for regular rotation. In addition, great care is taken to ensure that the nationalities of the Bank's staff reflect the shares of member countries' contributions to the Bank's capital.

²⁶Author's calculations based on data provided by the OECD.

At the same time, the boards of these institutions are well suited as democratic forums. In the OECD and EIB, all members are directly represented at the board, and double-majority voting (DMV) schemes magnify the voice of smaller shareholders and guard against powerful minorities pushing through decisions opposed by the majority of the members.²⁷ Double-majority voting is a recent innovation in both institutions. Through DMV, the members hope to keep decision making efficient despite the addition of new chairs, while preserving a degree of representation and ownership. To date, the mechanism has not yet been invoked at either organization, but its existence—and the possibility that a vote might be called—has reportedly changed the dynamics of decision making by forcing the biggest financial contributors to take into account the voices of other countries.

The BIS is the least well equipped to act as a democratic forum. In practice, the BIS implicitly retains a three-tiered membership structure, with each tier enjoying a different level of representation on its Board. Permanent direct representation (and a majority of the votes) is guaranteed only for the six founding (“ex-officio”) members. Countries in a second tier (up to nine) are elected to the Board for three-year renewable terms. The other 38 central banks that are members of the BIS are in a third tier and do not have representation on the Board. The BIS thus fits under the direct-representation model only to the degree that its founding members enjoy direct representation.

In terms of policing performance, IGOs following the direct representation model are in some respects better positioned than their MDB counterparts to evaluate and judge management’s performance, because their lines of accountability are clearer. At the BIS, the separation of the roles of CEO and chairman, complemented by regular reporting by the CEO to the Board, the arms-length involvement of the Board in management, and the seniority of board members, renders the CEO relatively accountable. At the OECD and EIB, the CEO and board chair positions are fused, but the distance of the Council and Board from management makes the actions of the CEO more easily separable from those of the board. However, none of these institutions uses performance measures for the CEO.

The direct representation model makes most sense for “peer group” organizations—IGOs with memberships of relatively few, like-minded states. Small peers groups can afford to have everyone represented on the

²⁷The introduction of DMV in these two organizations is particularly important given the large inequalities in the members’ financial weight. For instance, at the OECD, two members (Japan and the United States) alone provide some 42 percent of the total contributions that make up the bulk of the organization’s budget. At the EIB, the “big four” (France, Germany, the United Kingdom, and Italy) represent 65 percent of the Bank’s subscribed capital.

executive body without risking paralysis. The three organizations just discussed reflect this: their relatively small memberships consist of advanced or transition economies, largely or exclusively from Europe.

Constituency-Based Oversight Model

This model of governance is common among United Nations agencies with large memberships (more than 170 member states), such as the United Nations Development Program (UNDP) and the World Health Organization (WHO). Some organizations outside the UN system, such as the Global Environment Facility, have also adopted it. As in the delegate-and-control model, member states delegate power to a non-plenary board, and members are represented through constituencies. However, these organizations have several distinguishing features: they have (1) executive bodies that are large in absolute terms but small relative to the size of the membership; (2) non-resident boards that meet only two or three times per year; (3) board directors who represent constituencies with rotation schemes; (4) one-nation-one-vote or double-majority voting systems; and (5) separate CEOs and board chairs. Table 5 shows selected indicators for the organizations following the constituency-based oversight model.

How does this governance model affect the board's role as political counterweight? Directors in organizations following this model are non-resident and there is no requirement that they owe their primary loyalty to the organizations. Some of these organizations have explicitly recognized that directors are delegates representing their national governments.²⁸

Despite the proximity of directors to capitals, several characteristics significantly weaken the political counterweight role of these boards. The institutions' non-resident boards, meeting twice or thrice per year, are too far removed from the day-to-day business of the organization to be able to focus on anything but the most strategic, highest-level issues. Without staff or offices, the directors have little capacity to collect or process information about the organization's work. Directors are elected, not appointed, by single governments which weakens the degree of political control that any single capital can exert over them.

Yet, the characteristics that weaken the political counterweight role do not result in a strong strategic-thinking role. At between 32 and 36 directors, these boards are larger than those in the organizations covered

²⁸For example, since 1998, the WHO explicitly recognized its directors as government representatives, after years of pretending that they served only in their personal capacities and owed their allegiance only to the medical profession. On this point, see Burci and Vignes (2004: 57–58).

Table 5. Selected Indicators for Inter-Governmental Organizations Following the Constituency-Based Oversight Model

| | WHO | GEF | UNDP |
|--|------------------------------------|------------------------------|------------------------------------|
| Membership size (number of countries) | 193 | 177 | 192 |
| Staff/secretariat size | 8,000 | 60 ¹ | 7,000 |
| Size of executive board | 34 | 32 | 36 |
| Ratio of board size to total membership | 0.17 | 0.18 | 0.19 |
| Frequency of board meetings | 2/year | 2/year | 3/year |
| Annual cost of running the board (as a % of net administrative budget), most recent year available | n/a | n/a | n/a |
| Mandated terms of office for directors | 3 years, renewable | 3 years, renewable | 3 years, renewable |
| Voting system | One country, one vote ² | Double majority ³ | One country, one vote ⁴ |
| Resident or non-resident board? | Non-resident | Non-resident | Non-resident |
| Number of directors representing a single country as a % of the total | 0% | 31% | 0% |
| Average rotating constituency size | 5.6 ⁵ | 7.6 ⁶ | 5.3 ⁷ |
| CEO is also chairman of board | No | On occasion | No |
| Performance standards for CEO | No | No | No |
| Mandated reporting by CEO | No | Yes | No |

¹This number is deceptive because the GEF also has a number of "hidden staff" in the form of contractors hired for project implementation and of people in capitals who work on GEF-related business.

²Most decisions require only a simple majority, while more critical decisions such as amendments to the Constitution, recommendations influencing the working budget, and changes to the Board Rules of Procedure require a two-thirds majority. In practice, however, the WHO discourages formal voting and consensus-based decisions are typical.

³Decisions require a 60 percent majority of total number of participants and a 60 percent majority of the total contributions.

⁴Decisions require a simple majority of the members present and voting. Since 1994, decisions have always been adopted by consensus.

⁵On the WHO Executive Board, seven seats are reserved for Africa, six for the Americas, three for South-East Asia, seven for Europe, five for the Eastern Mediterranean, and four for the Western Pacific.

⁶On the GEF Council, 177 countries are divided into 32 constituencies, 18 composed of recipient countries and 14 composed principally of non-recipient countries. Ten constituencies are single-country. The recipient constituencies are distributed to achieve a geographic balance.

⁷On the UNDP Board, eight seats are reserved for Africa, seven for Asian and Pacific states, four for Eastern Europe, five for Latin America and the Caribbean, and twelve for Western Europe and other states.

thus far—too large to serve as effective forums for strategic thinking. Also, while the official tenures of directors are longer than in the Bretton Woods institutions, turnover is in fact higher because of mandated rotation schemes. This contrasts with the IMF and the World Bank, where a handful of directors tend to stay on for very long tenures and become repositories of institutional knowledge. In practice, the boards in the constituency-based oversight model must rely heavily on the CEO to think about strategy and make concrete proposals to the board.

As democratic forums, these boards are more effective at accommodating near-universal memberships than those in the delegate-and-control model. With larger boards and relatively few or no single-country chairs, members are part of smaller constituencies (between 5.3 and 7.6 countries per constituency, compared with 10.9 for the IMF and World Bank). Also, formalized rotation schemes provide regional balance and give every member a chance to serve on the board. Most importantly, the one-country-one-vote system of the WHO and UNDP, as well as the double-majority voting system of the GEF, ensure that the voices of all or most members count.

Finally, the board's role as performance police in organizations following the constituency-based oversight model is potentially more effective than in the delegate-and-control model. The separation of the CEO and board chair roles and the arms-length engagement of the board produce clear lines of responsibility, with the board instructing and supervising and the CEO implementing. In practice, however, the IGOs do not have a formal process for evaluating the CEO. There are periodic reports by the CEO to the board (the GEF, in particular, requires the Secretariat to report to the Assembly and to the Council), but no performance criteria or formal review process.

Looking Across Models

Summarizing the main characteristics of all three models in a single table (Table 6), we can now compare the relative strengths and weaknesses of the models in terms of the four roles that boards can play. The delegate-and-control model is the strongest when it comes to the board's role as political counterweight, with the direct representation model in second place. As democratic forums, the direct representation and constituency-based oversight models have the most potential, though they were conceived for two different orders of magnitude in membership size. In terms of strategic thinking, the direct representation model is the least inadequate. Performance police is not a role that IGO boards perform well in general, but among the three models, the least poorly suited for this role are the direct representation and constituency-based oversight models.

Table 6. Rating the Roles of the Executive Board by Governance Model

| | | Role of the Board | | | |
|------------------|------------------------------|-------------------------|------------------|-------------------|--------------------|
| | | Political counterweight | Democratic forum | Strategic thinker | Performance police |
| Governance Model | Delegate-and-control | Strong | Medium | Weak | Weak |
| | Direct representation | Medium | Strong | Medium | Medium |
| | Constituency-based oversight | Weak | Strong | Weak | Medium |

Conclusions and Lessons for the IMF

What does this comparative exercise tell us about the governance of the IMF? First, it helps us place the IMF in a larger constellation of IGOs, both with similar and different models of governance. The main findings are the following:

- The IMF's Board has characteristics that, at least in theory, make its decision-making relatively efficient among IGOs with large memberships. Of the five organizations in the sample with near-universal memberships, the IMF and the World Bank have the smallest boards. Also, the Fund and the Bank have the lowest ratio of board to membership size of any IGO in the sample.
- The features that facilitate decision-making come at a cost in terms of the quality of representation and voice for at least some of the Fund's member countries. Among IGOs that have constituencies, the World Bank and the IMF have the most single-country directors and the largest average constituencies; this dilutes the extent of direct representation that members enjoy on the board.
- At around six percent of general administrative costs, the cost of running the IMF's Board is relatively high when compared with other IGOs with resident boards, though not significantly out of line with that of peer institutions (the range is four to seven percent). These numbers should be interpreted with caution, given the different mandates and membership sizes of each organization.
- The tenure of IMF directors is relatively short. Along with the World Bank and the AsDB, the IMF has the shortest mandated terms for directors, and at 25 months, the actual median term of office for IMF directors is also one of the shortest. This high turnover is partly

offset by the experience that some IMF directors accumulate while serving as alternate directors.

Issues of Institutional Design

The above comparative exercise also raises two larger issues of institutional design. This paper has shown that the IMF's governance arrangements are part of a larger universe of governance models, and that the choice of model affects the capacity of the organization's board to perform key roles. In the case of the IMF, a key question is whether governance should remain closely wedded to the delegate-and-control model. This model makes sense for multilateral lending institutions because those who contribute the bulk of the financial resources will only do so if they can be assured a certain degree of control over their use. Not surprisingly, all of the other IGOs that use the delegate-and-control model are multilateral development banks.

But there are reasons to question the IMF's complete adherence to the model. The Fund's near-universal membership (as opposed to the regional memberships of most MDBs), the changing weight of some member countries in the world economy, and the Fund's current crisis of legitimacy suggest that importing governance innovations from other models, if not a total departure from the existing model, may be in order. Also, the Fund has two other "lines of business" in addition to lending: the provision of technical assistance (a responsibility it shares with MDBs) and surveillance (which no MDB practices to the same degree). These two lines of business are arguably better served by governance models other than delegate-and-control. Surveillance, in particular, may be better served by a system in which the political counterweight role of the board is weaker, reducing political interference that has been known to water down staff analysis of member states' economic policies and conditions. To try to undertake all three lines of business with an board that is structured to exercise political control over lending may not be the best way to operate effectively and with legitimacy.

What governance mechanisms could the Fund borrow from other models? The answer depends on how one wishes to change the configuration of strengths and weaknesses in the Board's four roles. I consider several mechanisms below.

Strategic Thinking

If the goal is to strengthen strategic thinking at the IMF, there are two general directions. One to outsource this role to a ministerial body such as the International Monetary and Financial Committee (IMFC). The second

general direction is to increase the Board's autonomy and capacity, and to promote the board characteristics that support its role as strategic thinker.

Reducing the size of the Board or shifting to a non-resident Board are unattractive options, as these measures would further weaken the board's role as a democratic forum. A move toward a non-resident board would likely be accompanied by demands that the political counterweight role move down the delegation chain into Management and staff, as it has at the EIB, and that Management become more representative of the membership. Management would have to expand, and formal nationality quotas and rotation mechanisms might be necessary. These measures would reduce efficiency and would increase the politicization of decisions by Management and staff.

There are, however, some intermediate measures that could strengthen the Board's role as strategic thinker without drastic structural change. I am not recommending the adoption of all of these measures, but laying out a menu of the most promising options.

Independent/Outside Directors

Independent directors can bring external expertise to an organization, improve the objectivity of board decisions, and reduce conflicts of interest. There is only one relevant case in our sample of IGOs. In 2004, the EIB amended its Statute to allow for the addition of up to six outside experts (three non-voting directors and three alternates) to the Board.²⁹ These experts participate in all Board meetings in an advisory capacity, without voting rights, and like other directors, they are appointed for renewable five-year terms. The stated purpose of adding outside directors is to broaden the Board's expertise in certain fields. Interviews at the EIB suggest that the independent directors have added value to the Board's decisions.

The introduction of independent directors to the IMF Board might offer similar benefits. Outside directors could be a mix of senior academic economists, former policymakers, and private-sector figures. They would sit on the board in a personal capacity, serving no government but only the institution as a whole. Free from influence from capitals and already at the peak of their careers, these directors would be able to provide frank opinions about country and policy issues. They could also bring much-needed expertise in specialized areas, such as financial sector policy.³⁰ Directors

²⁹Currently, six experts are in place; the directors are from France, Italy, and the U.K., while the alternates come from Spain, Poland, and Germany. The three directors are senior, private-sector bankers, usually with experience in project finance.

³⁰On this point, see Bossone (Chapter 12 in this volume).

from the private sector could prove especially valuable by providing the Board—which generally lacks private-sector experience—with insights about how the markets might react to Fund policies.

An alternative to introducing independent experts into the Board itself is to create an advisory council of eminent experts with whom the Board would meet periodically to receive advice. The experts would not be directors—they would be separate from the Board and not participate in Board deliberations—but the Board would still benefit from their guidance and specialized knowledge. The quality and nature of the advice the experts can provide would naturally be more limited and of a different character than if the experts were full participants in the Board discussions.

Meeting Frequency

The Board could strengthen its strategic role by delegating more to Management and distancing itself from the details of the Fund's business. Without resorting to a non-resident Board, the Fund could cut down on the Board's meeting time, following the examples of the EBRD and OECD. The question, of course, is what to cut.

Under the Articles of Agreement, the Board cannot delegate its powers to any other body, either within or outside the Fund. Article IV discussions would be especially difficult to delegate, because surveillance is a key function of the Board; changing this would require amending the Articles. The introduction of written statements in place of oral interventions at the Board has cut down on meeting time, but there is a limit on how much more could be gained from similar measures.

Unfortunately, other IGOs offer few good examples of how to reduce Board meeting time significantly. One idea, recently introduced at the OECD, is to give Board committees decision-making power and make it difficult for the Board to re-open issues once they have been decided by committees. But, given the Fund Board's traditional antipathy to working in committees, this idea is unlikely to work unless the Board changes its attitude toward committees and makes more active use of them.³¹ The Board could also rethink the modalities through which it provides input for bilateral surveillance and for decisions involving the use of Fund resources.

Term of Office

As mentioned, IMF directors serve comparatively short terms of office. One of the simplest and most effective ways of increasing Board

³¹On this point, see Chelsky (Chapter 7 in this volume).

capacity and autonomy would be to extend the terms of office to at least three years. One downside of lengthening terms of office is that it would lengthen the time that members must wait to get leadership positions. Another issue relates to accountability. At the moment, elected directors cannot be removed during their terms of office; if the terms were to be lengthened, more robust accountability mechanisms should be introduced in parallel.

Democratic Forum

In effect, the Fund has chosen to sacrifice some of the Board's role as democratic forum in exchange for a Board that is smaller and more efficient. To strengthen the Board's ability to be a democratic forum, four options are especially promising. These are not mutually exclusive.

Board Enlargement

The first is to add more seats to the Board. This would inevitably erode the Board's role as strategic thinker and increase transaction costs. On the other hand, having long passed the ideal number of 10 to 12 Board members, the marginal efficiency loss of adding one or a few more chairs might be outweighed by the gains in voice and representation.

Rotation Schemes

The second option, drawn from the constituency-based oversight model, would be to establish egalitarian rotating schemes in many or most constituencies. Director and alternate chairs would no longer be held exclusively by the largest vote-holding members of the constituency but would rotate equally among all members, regardless of voting power. The main advantage of the scheme would be a much-enhanced voice and sense of ownership of the institution by small shareholders. At the same time, the largest economies in the constituency would continue to provide much of the expertise and input, given their greater capacity to contribute. Of course, less drastic, intermediate rotation schemes that would not require the largest shareholders to surrender all of their chairs are also possible.

Reducing Single-Country Seats

As this study has shown, the Bretton Woods institutions have the largest executive board constituencies, on average. This is not only because of their small boards relative to their total memberships, but also because of the relatively large number of single-country chairs. One way of relieving this "overcrowding" would be to impose a cap on the number of countries that can be

represented by a single director, forcing countries to migrate to smaller constituencies and relieving the burden of representation on the most crowded chairs.³² This approach would work best if combined with efforts to reduce the number of single-country constituencies. This would involve a delicate political deal whereby all, if not most, of the top shareholders would agree to open their constituencies to other member countries. The first step in this direction would be to abolish appointed chairs on the Board, which would open the door to the formation of new multi-country constituencies where currently there are only single-country chairs.

Double-Majority Voting

A fourth option is to introduce a double-majority scheme similar to those at the EIB, OECD, and GEF. Already, double-majority voting (85 percent of the voting power and 60 percent of the members) is required of the IMF's Board of Governors to amend the Articles of Agreement or to expel a member from the organization. A similar scheme could be introduced at the IMF Board for certain kinds of decisions (for example, on policy but not on country issues); a more ambitious scheme would require double majorities for most decisions, exempting only a narrow category of decisions.

Performance Police

As we have seen, the boards of IGOs are not well suited to play the performance-police role of private-sector boards. Performance monitoring and evaluation often take place through separate evaluation offices or units, or through ombudsmen like the World Bank's Inspection Panel that accept and follow up on grievances from stakeholders. In some organizations, the CEO is required to report to the Board on a regular basis.

The IGOs studied here do not offer useful insights to help strengthen the IMF's role as performance police. What is clear is that for political reasons, such an undertaking would have to be approached delicately, possibly in parallel with a process of Board self-evaluation. This would demonstrate the Board's commitment to evaluating its own performance as well as the MD's. Also, the MD's "report card" would need to be disaggregated into a variety of specific dimensions, such as managing relations with shareholders, chairing the Board, and managing and recruiting the staff. In contrast to the private sector, where performance is often linked directly to CEO

³²This has been suggested for the World Bank by the South Centre (South Centre, 2007).

compensation, CEO evaluation at the Fund would be the beginning of a constructive dialogue between the MD and the Board.

Conclusion

The central point of this paper is that the twin crises of relevance and legitimacy that the Fund is facing today are partly related to the organization's adherence to the delegate-and-control model. The model has proven to be an effective way to ensure a strong political counterweight role for the Board and to guarantee major shareholders that they will have control over the use of the resources they provide. This has ensured sustained support for the institution by the largest economies. However, this has come at the expense of the Board's capacity to play other important roles—as strategic thinker, as performance police, and as democratic forum.

Today, more than ever, the IMF needs its Executive Board to play these other three roles effectively. Governance reform should mean shifting away from the delegate-and-control model and importing or adapting governance mechanisms from other models to strengthen the Board's other roles. Which roles are to be strengthened—and with which governance mechanisms—are political decisions that must be taken by the Fund's stakeholders. This decision will affect the balance of power within the institution, how the IMF functions, and whether it will be able to remain relevant and effective in coming decades.

Annex. Representation and Voting Power in IMF Multi-Country Constituencies

| Multi-Country Constituency | Number of Countries | Composition | Number of Members Under an IMF Program (2006) | Configuration of Voting Power | Leaders' Share of Constituency's Voting Power (%) | ED Selection Arrangements (at Time of Writing) |
|---------------------------------------|---------------------|-----------------------|---|----------------------------------|---|--|
| India | 4 | Developing countries. | 2 | Single head. | India 80.3 | India always ED; Sri Lanka always Alternate. |
| Italy and Southern Europe | 7 | Mixed. | 1 | Single head. | Italy 77.8 | Italy always ED; Greece always Alternate. |
| Southern Cone | 6 | Developing countries. | 4 | Single head with junior partner. | Argentina 49.4 Chile 20.3 | Both positions rotate among all members, but Argentina ED more often than others. |
| Australia/Korea | 14 | Mixed. | 1 | Single head with junior partner. | Australia 45.0 Korea 16.6 | Until 2004, Australia always ED; now, rotation with Korea; Alternate chair rotates among Australia, Korea, New Zealand, and the Philippines. |
| Belgium, Turkey, and Eastern Europe | 10 | Mixed. | 1 | Single head with junior partner | Belgium 41.5 Austria 17.0 | Belgium always ED; Austria always Alternate. |
| Brazil | 9 | Developing countries. | 4 | Single head with junior partner. | Brazil 57.0 Colombia 14.9 | Brazil always ED; Alternate rotates among Colombia, Ecuador, Panama, and Trinidad and Tobago (though by agreement, not cyclical). |
| Canada, Ireland, and the Caribbean | 12 | Mixed. | 1 | Single head with junior partner. | Canada 79.3 | Canada always ED, Ireland always Alternate. |
| Francophone Africa | 24 | Developing countries. | 11 | Single head with junior partner. | Congo, DR 18.1 | Rotation system includes all members; each member serves four consecutive terms, first two terms as Alternate and then two terms as ED. |
| Netherlands and Eastern Europe | 12 | Mixed. | 3 | Single head with junior partner. | Netherlands 49.2 Ukraine 13.4 | Netherlands always ED; Ukraine always Alternate. |
| Switzerland, Poland, and Central Asia | 8 | Mixed. | 4 | Single head with junior partner. | Switzerland 56.3 Poland 22.63 | Switzerland always ED; Poland always Alternate. |

Annex (concluded)

| Multi-Country Constituency | Number of Countries | Composition | Number of Members Under an IMF Program (2006) | Configuration of Voting Power | Leaders' Share of Constituency's Voting Power (%) | ED Selection Arrangements (at Time of Writing) |
|-------------------------------------|---------------------|-----------------------|---|-------------------------------|--|--|
| Anglophone Africa | 19 | Developing countries. | 9 | Dual head. | S. Africa 29.0 Nigeria 27.3 | Rotation system includes all members; each member serves two consecutive terms, first as Alternate and then as ED. |
| Egypt and Middle East | 13 | Mixed. | 1 | Multiple heads. | Kuwait 22.0 Libya 18.0 Egypt 15.1 | Egypt has always been the ED; Alternate elected from among other members. |
| Iran, Pakistan, and Northern Africa | 7 | Developing countries. | 2 | Multiple heads. | Iran 28.4 Algeria 23.9 Pakistan 19.7 | Iran always ED; Morocco always Alternate (Algeria and Pakistan and get the World Bank). |
| Nordic/Baltic | 8 | Mixed. | 0 | Multiple heads. | Sweden 31.7 Norway 22.2 Denmark 21.9 | Both positions rotate among top five (Denmark, Finland, Iceland, Norway, Sweden). |
| Southeast Asia | 12 | Mixed. | 2 | Multiple heads. | Indonesia 21.0 Thailand 16.0 Malaysia 15.1 | ED and Alternate rotate among Indonesia, Malaysia, Singapore, and Thailand. |
| Spain and Central America | 8 | Mixed. | 2 | Multiple heads. | Spain 33.1 Venezuela 28.9 Mexico 28.0 | Both positions rotate among the three heads. |

References

- Abbott, Kenneth W., and Duncan Snidal, 1998, "Why States Act Through Formal International Organizations," *The Journal of Conflict Resolution*, Vol. 42, No. 1 (February), pp. 3–32.
- BoardSource, 2004, *Non-Profit Governance Index 2004*.
- Boughton, J. M., 2001, *Silent Revolution: The International Monetary Fund 1979–1989* (Washington: International Monetary Fund).
- Bryant, Ralph, 2008, "Reform of IMF Quota Shares and Voting Shares: A Missed Opportunity" (unpublished; Washington: Brookings Institution).
- Burci, Gian Luca, and Claude-Henry Vignes, 2004, *World Health Organization* (The Hague: Kluwer Law International).
- Carter, Colin, and J. William Lorsch, 2003, *Back to the Drawing Board: Designing Corporate Boards for a Complex World* (Cambridge, Massachusetts: Harvard Business School Press).
- "Combined Code on Corporate Governance (U.K.)," 2003. Available via the Internet: www.fsa.gov.uk/pubs/ukla/lr-comcode2003.pdf.
- Financial Reporting Council, 2006, "Combined Code on Corporate Governance (UK)" (London).
- Forbes*, 2007, "The Global 2000." Available via the Internet: www.forbes.com.
- Garratt, Bob, 2003, *The Fish Rots from the Head: The Crisis in Our Boardrooms—Developing the Crucial Skills of a Competent Director* (London: Profile Books).
- Gianviti, F., 1999, "Decision Making in the International Monetary Fund," in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).
- Hawkins, Darren G., David A. Lake, Daniel L. Nielson, and Richard J. Tierney, 2006, *Delegation and Agency in International Organizations* (Cambridge, United Kingdom: Cambridge University Press).
- Hexner, Ervin P., 1964, "The Executive Board of the International Monetary Fund: A Decision-Making Instrument," *International Organization*, Vol. 18, No. 1 (Winter), p. 84.
- Higgs, Derek, 2003, "Higgs Report on Non-Executive Directors: Summary Recommendations," January. Available via the Internet: www.berr.gov.uk/files/file23012.pdf.
- Horsefield, J. Keith, 1969, *The International Monetary Fund 1945–1965*, Vol. I (Washington: International Monetary Fund).
- Kapur, Devesh, and Richard Webb, 1994, *The Evolution of the Multilateral Development Banks, Vol. IV of International Monetary and Financial Issues for the 1990s* (New York: United Nations).
- Martin, Lisa, and Ngaire Woods, 2005, "Multiple-State Constituencies in the IMF: An Agency Approach," paper presented at the Sixth Jacques Polak Annual Research Conference, November 3–4.

- One World Trust, 2006, *2006 Global Accountability Report* (London). Available via the Internet: www.oneworldtrust.org.
- , 2007, *2007 Global Accountability Report* (London). Available via the Internet: www.oneworldtrust.org.
- Spencer Stuart, 2006a, *Board Index, 2006: The Changing Profile of Directors*.
- , 2006b, *UK Board Index, 2006*.
- , 2006c, *Board Index: Italia 2006*.
- South Centre, 2007, “Reform of the World Bank Governance Structures,” Analytical Note, SC/GGDP/AN/GEG/4 (Geneva).
- Sutherland, Peter, and others, 2004, *The Future of the WTO: Addressing Institutional Challenges in the New Millennium*, Report by the Consultative Board to the Director-General Supachai Panitchpakdi (Geneva: World Trade Organization).
- Woods, Ngaire, and Domenico Lombardi, 2006, “Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF,” *Review of International Political Economy*, Vol. 13, No. 3 (August).

6

Lessons from Private Sector Governance Practices

DALBERG GLOBAL DEVELOPMENT ADVISORS

Though the IMF differs from private for-profit organizations in its constitution, purposes, and accountability, the underlying rationale for corporate governance is the same in both private and inter-governmental organizations, as reflected in the similar functions of their boards. For an evaluation of IMF corporate governance, therefore, much insight can be gleaned from a review of principles and good practices used in the private sector to address some of the same fundamental issues as those faced by the Fund. This paper examines corporate governance principles and practices that have become widely accepted in the private sector. It identifies 14 principles seen to be of greatest relevance for the governance of the IMF and, for each principle, identifies relevant questions for the IMF. It also outlines processes and indicators used by the private sector for evaluating governance systems, and draws out potentially relevant processes and indicators for the Fund.

Relevance of Lessons from the Private Sector

This study reviews governance practices and lessons from the private sector with implications for IMF governance reform. It identifies the good

This paper was edited by Leonardo Martinez-Diaz and Alisa Abrams.

corporate governance principles and practices in the private sector that are most relevant to the IMF and suggests a set of indicators for measuring the performance of the Fund's Executive Board. The study does not provide a gap analysis between current IMF governance practices and the good practices in common use in other organizations. It therefore does not provide specific recommendations to address governance gaps.

Highly publicized corporate scandals—of which the most infamous include Enron, WorldCom, Arthur Andersen, and Tyco—have made governance a priority issue in the private sector. Governance in the private sector has moved away from norms of practice and towards a body of widely discussed, codified, and tested practices. In particular, governance codes are increasingly converging on a number of key principles and good practices.

While the Fund may look to corporations in the private sector for lessons in governance, some fundamental institutional differences call for a careful and customized approach to this comparison:

- The IMF's governance system is determined by its own Articles of Agreement, whereas private sector governance requirements are laid out by national laws, regulations, and court systems;
- The Fund's main functions—which can be summarized as surveillance, financial assistance, and technical assistance—as well as its mission to “ensure the stability of the international monetary system”¹ do not lend themselves to performance-based measurement as do activities in the private sector;
- The Fund's ownership structure renders it accountable to the governments of its 185 member countries, as opposed to private owners. As a result, executive directors' responsibilities and appointment processes at the Fund are quite different from those typical of the private sector:

Responsibilities: Directors at the IMF have dual responsibilities, to the countries they represent and to the Fund. This creates challenges, as the various interests of the countries they represent are not always aligned, and sometimes they may run counter to the interests of the IMF as an institution. The misalignment of interests has grown as the Fund has moved away from function as a revolving credit union and toward an institution composed of perennial debtors and creditors.

¹From IMF (2006), which summarizes the purposes of the International Monetary Fund as laid out in Article I of the Articles of Agreement of the International Monetary Fund (Purposes).

Appointment process: Board members are nominated or elected by the countries they represent, while in listed companies, they are elected democratically by shareholders based on competencies or relationships. While the directors of the Fund are representatives of the countries that elected or appointed them, directors in the private sector are personally liable to shareholders.

- The fourth major difference is in the IMF's weighted voting system, which is based on a quota formula measuring the relative size of each country in the world economy. In the private sector, voting rights are derived directly from share ownership (and in some instances, from the characteristics of the shares owned).

All of these special characteristics must be kept in mind when considering the relevance of lessons from the private sector to the Fund's current governance structures. That said, the underlying objectives for corporate governance—promoting transparency, accountability, sound management, and providing strategic steering—are similar in both the private sector and inter-governmental organizations. Therefore, important insights can be gleaned from a review of good practices that have emerged in the private sector to deal with some of the same fundamental issues.

One distinction is worth clarifying at the outset. By *principles* of good corporate governance we refer to fundamental rules: rules that have garnered broad consensus and recognition in governance codes across the world. By *good practices*, we refer to structures and processes that private sector corporations have adopted to improve their governance structures. These practices are often mandated by law in rules-based governance frameworks, such as that of the United States, but are not mandatory in the “comply or explain”² principles-based frameworks that are more prevalent in Europe.

This paper is structured as follows. The second section presents our approach to identifying the relevant governance areas as well as the 14 relevant principles that are associated with those areas. The third section explores each of these 14 principles in more detail, clarifies their application in practice, and identifies the questions raised for the IMF by each principle. The final section outlines private sector processes and indicators for evaluating governance systems, and draws out potentially relevant processes and indicators for the Fund.

²The principle of “comply or explain” is clarified in European Corporate Governance Forum (2006).

Methodology

Methodologically, this study followed four steps. First, we conducted a comprehensive survey of widely recognized corporate governance codes (Annex 1) that were carefully chosen to provide a representative sample of various corporate cultures. Governance codes were considered from countries with unitary vs. two-tiered board structures, rules-based vs. principles-based legal frameworks, and shareholder-driven vs. society-driven corporate cultures. Through this work, we were able to identify the main developments and emerging consensus around what constitutes good governance practices.

Through this survey, we identified four fundamental areas of good governance:

- Honest endeavor to set and fulfill overall *strategy and mission*. This addresses the organization's duty to achieve its purpose and manage risk through planning, evaluation, and overall direction setting;
- Governance structures and processes that ensure *accountability to stakeholders*;
- Independent *oversight* of management;
- *Stakeholder rights* ensured through disclosure, transparency, and voice.

Considering the four areas identified above, we used two filters to identify the private sector principles most relevant for this study. The first filter limits the principles to areas that represent the most critical concerns at the IMF, and the second looks at some of the most innovative thinking in the private sector. Through this approach, we were able to identify eight principles that directly address each of the four areas of strategy and mission, accountability, oversight, and stakeholder rights. We also identified six principles that simultaneously address all of these areas; these are illustrated in Figure 1.

For each of these principles, we also explored trends in practice, drawing from press searches, academic papers, and research by executive search consulting firms. The latter, which included Spencer Stuart and Egon Zehnder International, provided particularly rich sources of data on trends in governance structures and practices. Through desk research and interviews with private sector board members, we also identified trends in measuring good governance in the private sector. We gathered the types of indicators—qualitative and quantitative—used in the private sector, and from that inventory created a shortlist of potentially relevant metrics for the IMF.

Figure 1. Fourteen Governance Principles in the Private Sector

| | |
|---|---|
| A. Strategy and mission | 1. Boards should be involved in the process for setting strategy |
| B. Accountability | 2. Directors are responsible for representing the interests of shareholders |
| | 3. Directors should be selected in a transparent fashion and based on objective criteria |
| C. Oversight | 4. The board should engage in CEO succession planning |
| | 5. The board should have an adequate mix of independent and executive directors |
| D. Stakeholder interests | 6. The board should exert sufficient control over management |
| | 7. Corporations should adhere to disclosure and transparency requirements |
| | 8. Minority shareholders' and stakeholders' interests should be respected |
| Principles that cut across governance areas | |
| | 9. The board should have a leader who is not the CEO |
| | 10. Boards and their members should be evaluated on an annual basis |
| | 11. There should be a process for managing conflicts of interest |
| | 12. Board structures need to ensure the separation of management and control |
| | 13. Board operations should be effective and efficient |
| | 14. Committees should be used to further board effectiveness and efficiency as well as provide independence |

Governance Principles and Practices in the Private Sector

All of the 14 principles identified above are based on the emerging consensus in corporate governance codes. This section describes and explains each of the 14 principles, provides examples of how they have been applied in practice in the corporate world, and identifies the questions these principles and practices raise for the governance of the IMF.

Strategy and Mission

Principle 1. Boards should be involved in the process for setting strategy. Boards are expected to fulfill strategic thinking and decision-making functions, taking into account the interests of shareholders. Boards' involvement is considered beneficial to their organizations because board members bring a wealth of experience and expertise that can help management in developing their strategy.

Governance Codes

The board's role in strategy setting is explicitly referenced across governance codes. For example, the OECD Principles of Corporate Governance (OECD, 2004) highlight reviewing and guiding corporate strategy, major plans of action, and business plans as a key function to be performed by a

board. In France, the Viénot Report (AFEP/CNPF, 1995) stipulates that the board of directors has a four-fold function, which includes determining the company's strategy. Likewise, in Italy, the Preda Code (Italian Stock Exchange, 1999) charges boards with providing strategic and organizational guidance to their organizations.

While governance codes call for the board having a role in setting strategy, they do not specify *how* the board should play such a role. Therefore, boards have a large degree of flexibility in defining their involvement, as well as in determining how much of this role to delegate to management.

Private Sector Practices

In practice, private sector boards are constrained by their level of expertise and knowledge of the organization, as well as time—particularly since they are non-resident boards, generally meeting only a few times per year. As a result, it is generally management's role to define strategy, while the board is in charge of approving that strategy and/or providing advice, as well as monitoring management's performance. In practice, only a minority of boards contribute proactively to strategy-setting, rather than simply approving management's strategy. Business academics suggest that boards' over-involvement in strategy can lead to tensions with management, and that strategy committees can take away from the desired board-level focus on strategic decisions (Carter and Lorsch, 2004).

Boards that play an active role in setting strategy can and should be appropriately equipped to do so. One can look to Banco Santander as an example of a board that proactively contributes to strategy-setting, and has set up structures and processes to help it perform this role (Box 1).

Questions for the IMF

The IMF should ask itself whether its own Executive Board's role in the strategy-setting process is clearly delineated in its mission statement, so that there is a clear owner of the strategy. Second, the IMF should consider whether the Board has the skills and is appropriately equipped to play an approval role—taking account of whether Board members have the political capital to do so (in their role as representatives of governments) and whether they have the appropriate information and capabilities to do so.

The Board might also reconsider its current role in strategy setting. Is there benefit in the Board becoming more involved? If so, should it be involved through a strategy committee and an advisory board such as Banco Santander's? Or, following the practice of most private sector boards, is the bulk of strategy setting best left to management while the Board provides direction and approves or disapproves the proposed strategy?

Box 1. Case Study: Banco Santander's Board Involvement in Strategy-Setting

Santander's board of directors is involved in formulating and approving the bank's strategy and clearly lays this out in its mission statement. The board is supported in that role by two structures. First, an International Committee, made up of four executive and four non-executive members, meets twice a year and is responsible for monitoring the development of the bank's strategy, analyzing business opportunities, and reviewing the performance of the Bank's investments. Like all committees at Santander, the International Committee does not have decision-making rights; its role is to provide information, advice, and proposals. Second, an International Advisory Board, made up of members with distinguished business and political backgrounds, provides input and advice to the board.

In the case of Banco Santander, this level of involvement is consistent with an approach to governance whereby management constantly leverages the expertise of an experienced set of board members who are very knowledgeable about, and heavily engaged with, the organization. While the board of directors as a whole meets about nine times per year, the executive committee meets weekly, and the risk committee biweekly.¹

¹According to Banco Santander's "Informe anual de gobierno corporativo correspondiente al ejercicio 2005," the executive committee met 53 times and the risk committee met 100 times in 2005.

Source: Information on Banco Santander's governance structure and board involvement in strategy setting comes from the company's website, which quotes the Deminor Rating/ISS "Corporate Governance Rating & Investor Report" for 2006.

Accountability

Principle 2. Directors are responsible for representing the interests of shareholders. Directors in listed entities are responsible for increasing their companies' value to shareholders. Making directors responsible ensures that there is a visible focal point within each organization that is primarily concerned with, and accountable to, shareholders.

Governance Codes

Many codes allude directly to directors' responsibility to represent the interest of shareholders—which is generally taken to mean maximizing shareholder value. Among such codes are those of the OECD, Japan, and the U.K. In continental Europe, governance codes tend to couch this responsibility within a broader responsibility towards stakeholders in general, on the assumption that meeting this responsibility will raise the

value of the company. The French and German codes are examples of this interpretation of director responsibility.

Governance codes recommend practices in selection, evaluation, reappointment, and orientation/training to ensure that the best directors are selected and that their talent is appropriately leveraged on the board. The present discussion focuses only on reappointment and orientation/training processes (we explore the topics of director selection and evaluation below under principles 3 and 10, because those principles address a broader set of issues than director responsibility).

Some governance codes address both reappointment and orientation/training processes. In the U.K., the Cadbury Report (London Stock Exchange, 1992), for example, mandates that “non-executive directors should be appointed for specified terms and reappointment should not be automatic,” thus ensuring the need for shareholders’ consent at regular intervals. As regards orientation/training, the OECD and New York Stock Exchange codes (OECD, 2004; NYSE, 2003) in particular refer to such processes as ways to help board members quickly and fully understand their responsibilities and duties as well as to obtain relevant information to help them better perform their duties.

Private Sector Practices

Selection, orientation, training, evaluation, and reappointment practices are in place in the private sector to ensure that directors fulfill their responsibilities to shareholders. Good practice requires that companies to allow shareholders to give their opinions at regular intervals about directors’ permanence on the board, and requires companies to invest in induction and training to ensure that directors have a full and consistent understanding of their responsibilities.

Reappointment processes require a formal review of each director’s continuation on the board at regular intervals. In practice, nomination committees are responsible for leading this process. For example, the charter of Nokia’s nomination committee lays out the responsibility to prepare the proposal to the shareholders for the election or re-election of the members of the Board.

While corporate governance codes refer to director education programs, they intentionally leave flexibility for boards to define appropriate induction and training processes. Some boards, like BP’s, make this a priority in their governance processes (Box 2).

Box 2. British Petroleum: Director Induction and Training

British Petroleum's (BP) induction and training are disclosed on the company's website as a matter of good governance.¹ The Chairman, with the support of the office of BP's Board Secretary, is accountable for the induction of new directors. The induction process is tailored to directors' needs and includes training on (1) the operations and activities of BP and (2) the role of the board, its decision-making powers, and its structures and processes (including the tasks and membership of the committees and the powers delegated to them). Beyond training on BP operations and governance structures, new Board members are also educated on their legal and other duties and obligations. Training is provided on an ongoing basis, and is customized depending on which committees directors are involved in and what skills and information can help enhance their effectiveness in the tasks that they perform.

¹BP website, "Serving as a director: induction, training and evaluation," www.bp.com/sectiongenericarticle.do?categoryId=9014835&contentId=7014802.

Questions for the IMF

At the Fund, there exists an inherent conflict in the dual role of directors as representatives of the governments that elected or appointed them and as officers of the Fund. With the understanding that this conflict will continue to exist, what can the board do to emphasize the latter role of executive directors? Could the directors benefit from induction processes that help them manage better their dual role and to make choices when interests conflict?

Induction processes alone cannot guarantee that board members have the requisite integrity and competence to perform their dual roles. The Fund could consider what types of backgrounds and degrees of independence have allowed directors to play the most effective role in mediating between their countries' interests and the Fund's interests. For example, are more senior and politically connected directors better able to communicate the Fund's interests back to their countries? Should and can these profiles be encouraged on the Board?

Finally, the Fund's directors currently are evaluated only by the countries that they represent. Can directors be made more accountable to the Fund while remaining accountable to their countries through a dual evaluation process?

Transparency of Selection

Principle 3. Directors should be selected in a transparent fashion and based on objective criteria. Private sector trends increasingly involve formal, rigorous, and transparent procedures for the appointment of new directors to the board. These procedures are intended to ensure the fairness of the process and to maximize the competence and integrity of directors elected to the board.

Governance Codes

The OECD governance code calls for a formal and transparent board nomination process as one of the board's key functions. Most codes, including the Viénot Report (France), the Japanese Corporate Governance Forum Principles (Corporate Governance Forum of Japan, 2001), the U.K.'s Combined Code (Financial Services Authority, 2003) and the NYSE's Listed Company Manual (NYSE, 2003) also recommend that a nomination committee be set up to effectively and independently design and implement the selection process. The nomination committee is required to make its terms of reference available, and to make explicit its role and the authority delegated to it by the board. Per NYSE requirements, at a minimum, this committee needs to "identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders."

Private Sector Practices

The selection of directors is becoming more transparent in the private sector, with nomination committees increasingly leading the process based on a set of criteria (independence, age, and skill sets) to guarantee an adequate mix on the board. In practice, companies across the world have instituted nomination committees; all top 150 largest U.K. companies have nomination committees (Spencer Stuart, 2006a), as do all listed U.S. companies, per mandatory requirements. In two-tiered board structures as well, a growing number of companies are adopting equivalents to the nomination committee. In the Netherlands, 61 percent of companies had a selection and appointment committee in 2006, versus fewer than 20 percent in 1996 (Spencer Stuart, 2006b).

Nomination committees have laid out guidelines for evaluating candidates to their boards. These commonly include management and leadership experience in business, education, or public service; skilled and diverse backgrounds, so as to bring the desired range of skills and diverse perspectives to the Board; and integrity and professionalism, which

includes a desire to serve the interests of all stockholders (see Annex 2 for a specific example).

Questions for the IMF

The IMF Executive Board is composed of 24 executive directors, some of whom represent only one country and others of whom represent multi-country constituencies. Some Executive Directors are appointed, while others are elected.

With the understanding that ED appointments to the Board ultimately lie with member countries, to what extent can the Board play a role in defining the requisite skill sets and criteria for Board membership? Can and should the Board go as far as recommending individuals for member countries to consider? Or approving nominees for director positions, based on objective criteria defined by the Board? Could a Board-led nomination committee play a constructive role in designing and facilitating a selection process?

An additional point to consider is whether the resident status of the Board impedes access to the best candidates. As private sector boards are non-resident, and only meet an average of eight times a year, this allows them to tap into a skilled and high-caliber talent-pool that may not otherwise be available on a full-time basis.

Succession Planning

Principle 4. The board should engage in succession planning. Oversight of CEO succession planning is seen as an important responsibility of the board. The CEO selection process, however, does not require the same degree of transparency as that for director succession planning.

Governance Codes

The OECD Corporate Governance Code, the NYSE Listed Company Manual, and the Viénot Report (France) include the oversight of CEO succession planning as a key function of the board. Many corporate codes, however, do not address CEO succession explicitly; this group includes the Preda Report (Italy), the Corporate Governance Forum Principles (Japan), the Combined Code (U.K.), and the Peters code (Netherlands) (Committee on Corporate Governance, 2003).

Codes that require boards to have selection processes in place do not require boards to be transparent about these processes. The New York Stock Exchange specifically stipulates that “succession planning should include policies and principles for CEO selection and performance review,

as well as policies regarding succession in the event of an emergency or the retirement of the CEO” (Rule 303A.09). The Viénot Report (France) recommends that the selection committee be involved in examining the chairman’s proposals but specifically notes that there is a need for confidentiality in the CEO succession process: “it should be the permanent responsibility of the selection committee to be in a position to propose successors at short notice, although clearly this would require confidentiality” (AFEP/CNPF, 1995).

Private Sector Practices

According to Spencer Stuart data, CEO succession planning increasingly occupies the attention of boards in the US, where 94 percent of S&P500 firm discussed CEO succession on an annual basis in 2006, versus only 87 percent in 2005. Furthermore, 69 percent of the boards that were surveyed in 2006 had an emergency succession plan. In 38 percent of cases, the CEO led his or her succession planning, while in the majority of cases, both CEO and board were involved at intermediate steps, for instance in the management and evaluation of internal candidates.

Business academics recommend a four-step selection process: (1) establish criteria, setting goals and objectives of the search; (2) structure the process, establishing a committee to run a clearly-defined search process; (3) identify candidates, defining the candidate pool broadly and assessing thoroughly; and (4) execute selection, choosing candidates on the basis of goals and objectives. These steps are detailed in Annex 3.

Questions for the IMF

According to an unwritten convention, the Managing Director at the IMF is has always been a Western European citizen, nominated by European governments, with some input from the United States and other major Fund shareholders (for details, see Peretz, Chapter 11 in this volume). Private sector practices raise a number of questions for the IMF: Can executive directors be more involved in setting and implementing the MD selection process? Should a nomination committee be involved in drawing up shortlists? Does it make sense for the Board to be involved in succession planning on an annual basis? Does it make sense to develop an emergency succession planning process?

The last two questions underlie the likelihood of change of leadership in the private sector. That is, if governance codes pay relatively little attention to the matter of CEO selection, it is because constant performance evaluation, coupled with the power to compensate and dismiss, are the preferred private sector practices to ensure CEO competence. If serious

and consequential MD evaluation were to be instituted at the Fund, the questions of annual succession planning and emergency succession plans would become much more relevant.

Oversight

Principle 5. Corporate boards should have an adequate mix of independent and executive directors. Boards across the world are expected to have a majority of independent directors, due to the belief that these directors can bring external expertise to the organization as well as allow enough independence to effectively and objectively oversee management activities. An independent director is defined as an individual who has no relationship that may compromise his or her objectivity and loyalty to shareholders. These are individuals who have no material relationship with the company, whether as a partner, employee of the organization or as an affiliate, paid advisor, or consultant to the firm, or immediate family member of a partner or employee of the company. The definition of independence itself has become stricter and limited to individuals who have no recent relationship to the company.

Governance Codes

Most codes do not mandate a majority of independent directors, but rather recommend a mix of executive and independent directors such that the board may operate independently of management. Codes that encourage companies to determine the adequate mix of directors include the OECD Principles, Viénot Report (France), Preda Report (Italy), Peters Code (The Netherlands), and the Combined Code (U.K.). More stringent codes such as those of the Australian Stock Exchange (2003) and NYSE require a majority of independent directors and demand that these directors hold regular meetings without the presence of management.

Even the less stringent Japanese Corporate Governance Forum Principles recommend that the board of directors include independent, non-executive directors but allow for a transitional measure whereby companies may appoint a “management advisory committee” (Corporate Governance Forum of Japan, 2001). The latter is in place to allow companies to transition from Japanese governance structures, which traditionally had no independent directors on the board.

Private Sector Practices

U.S. boards are complying with regulations and ensuring that independent directors make up a majority of board members. Of the average S&P500 board of eleven directors, 81 percent of directors were independent

Box 3. Toyota: Separating Oversight from Management, Without Independent Directors

Toyota, which is seen as one of Japan's corporate gemstones and has surpassed General Motors to become the world's largest carmaker, did not go the same route as its national rival, Mazda. Instead of adopting the U.S.-type of model, Toyota, along with 5 percent of other Japanese companies, has adapted the traditional Japanese model, separating the task of oversight from that of management, while introducing no independent directors. Toyota created an independent board of corporate auditors and reduced its board size to clearly separate monitoring and management functions—keeping executive directors focused on a monitoring role and meeting on a monthly basis, while creating a set of senior managing directors clearly accountable for management.

in 2006, versus only 77 percent in 2001. The same applied in countries with two-tiered board structures. In the Netherlands, more than 50 percent of directors are independent (Spencer Stuart, 2006b: 9). In Japan, where companies have freedom to decide, 4 percent of companies, including Sony, Hitachi, and Mazda, have adopted a U.S.-type model with outside directors to ensure the separation of board and management interests (Egon Zehnder International). Toyota has taken a different approach (see Box 3).

Questions for the IMF

While bringing “independent” directors to the institution may prove impracticable, the Fund could consider ways to effectively separate the oversight and management functions on the Board. Today, the Executive Board is heavily involved in management activities while the International Monetary and Finance Committee (IMFC) plays a very “light-touch” role in oversight. Would a clear split of oversight and management activities, such as Toyota's, make sense? Alternatively, could certain functions of the Board be handled by independent board members? In the case of internal audit functions, could the Fund consider creating an independent internal audit committee to monitor both the Executive Board and management, and report directly to the Board of Governors? The UN has such an independent Audit Advisory Committee that reports directly to the General Assembly.

Control over Management

Principle 6. The board should exercise sufficient control over management. Boards need to exert an adequate degree of control to effectively perform their oversight of management.

Governance Codes

Governance codes unanimously emphasize the board's responsibility to monitor management effectively and to ensure that the strategic objectives of their organizations are being achieved. This role is reiterated in the OECD Principles, the Viénot Report (France), the Preda Report (Italy), the Corporate Governance Forum Principles (Japan), the Peters Code (the Netherlands), and the Cadbury Report (U.K.).

Private Sector Practices

In practice, private sector boards exert influence over management primarily through their ability to motivate (including through compensation) and, if necessary, to replace the top layer of management. The power to determine management compensation is used on an ongoing basis to exert influence over management. Based on the recommendations of compensation committees, private sector boards determine top executives' compensation and incentive plans at regular intervals.

Situations where private sector boards generally step in more visibly arise when the company runs into difficulties, or if the board loses confidence in management's ability to set strategy or to execute its plans. In those instances, the board can choose to challenge the CEO and go as far as replacing him or her. More and more boards are using these powers; the past years in particular have seen a flurry of CEO replacements. The 2006/2007 list includes those at Ford, Viacom, Home Depot, McAfee, Disney, Sovereign Bancorp, and CNET Networks.

Business academics suggest that, during a normal state of affairs, a constructive board will perform its oversight of management without over-interfering or micromanaging—that is, there should always be substantial delegation by the board. This is for two reasons: first, boards have limited time and should focus on the most strategic decisions and oversight functions and second, over-interfering boards run the risk of undermining management and making it difficult to hold the latter accountable for results that it did not fully own.

A best-practice board will maintain its independence and strive to achieve a balance between control and micromanagement. Within those parameters, Carter and Lorsch (2004) suggest that there is significant

room for variation in the oversight activities performed by private sector boards depending on company specificities, including the complexity of the business and particular circumstances such as when a new CEO has yet to earn the trust of the board.

Questions for the IMF

As mentioned previously, the Fund's Executive Board is very heavily involved in management activities while the IMFC plays a very "light-touch" role in oversight. This raises some challenges as to whether the Board has sufficient independence and is sufficiently distant from management to be able to hold management accountable.

Furthermore, the Executive Board today is not involved in evaluating management, and only discusses management compensation in general, not in reference to specific individuals occupying the office. One can also ask whether the Board should be involved in selecting, evaluating, compensating, and potentially replacing the MD and Deputy Managing Directors.

Stakeholder Interests

Principle 7. Corporations should adhere to disclosure and transparency requirements. There is widespread acceptance of the need for financial and non-financial disclosure, and the various governance codes are increasingly converging towards similar requirements. Disclosure of corporate governance practices in particular is seen as a way to build trust with shareholders by allowing better transparency around how boards ensure the performance of their duties to shareholders.

Governance Codes

Corporate governance codes are aligned in calling for timely disclosure of financial and operating results, with the emphasis no longer simply on providing the data, but on making it digestible and user friendly for shareholders and stakeholders. On the non-financial disclosure front, governance codes are nearly unanimous in calling for disclosure of board member and key executive compensation, as well as disclosure of corporate governance practices.

Disclosure of corporate governance practices is most relevant for the IMF. The OECD Principles, Australian Stock Exchange listing requirements, Viénot Report (France), and the Peters Code (Netherlands) all require such disclosure in general terms. For example, the Peters Code requires that "the main principles of corporate governance" be disclosed. Some other codes do not require disclosure in these general terms, but

rather mandate the disclosure of specific practices. For example, the NYSE requires disclosure of practices relating to the selection of directors.

Beyond the strict legal financial disclosure requirements, boards are often expected to follow the “comply or explain” principle if they do not meet their local code requirements. The UN’s Guidance on Good Practices in Corporate Governance Disclosure (UNCTAD, 2006) states that “where there is no local code on corporate governance, companies should follow recognized international good practices.”

Private Sector Practices

Even in legal environments that do not explicitly require companies to disclose their main principles of corporate governance, companies have opted to provide information on their governance practices. For example, since 1992, the Campbell Soup Company has published its corporate governance standards in a Proxy Statement, the 2007 version of which can be accessed on the company’s website.³

Questions for the IMF

The Fund should consider whether it should or can become more transparent about its structures and processes. Also, is it effectively prioritizing substance over form, and effectively using web updates, newsletters, annual reports, and other means of communication with shareholders and stakeholders?

Shareholder Rights

Principle 8. Minority shareholders’ and stakeholders’ rights should be respected. Minority shareholder rights have been emphasized in the movement for “one-share-one-vote,” whose goal is to ensure that minority shareholders are protected from majority shareholder decisions that could be harmful to them. Protecting the rights of stakeholders (such as employees, suppliers, customers, and communities) is also recognized as part of good governance.

Governance Codes

Corporate governance codes encourage corporate democracy. The issue of “one-share-one-vote” (1S1V) is explicitly addressed by most European governance codes. A major German code, for example, states that “in principle each share carries one vote. There are no shares with multiple

³www.campbellsoupcompany.com/governance_standards.asp.

voting rights, [. . .] golden shares or maximum voting rights” (German Government Commission, 2006). While the NYSE agrees to list companies with dual-class shares (i.e., those that do not respect the 1S1V principle), the Listed Company Manual states that it is concerned with arrangements that grant special rights to a shareholder or group of shareholders.

Private Sector Practices

In practice, the majority of European companies apply the 1S1V principle, but there are wide variations among countries. While in Belgium, Germany, and the U.K. almost all companies adhere to 1S1V, in the Netherlands, Sweden, and France only 14 percent, 25 percent, and 31 percent of companies do so, respectively (Deminor Rating, 2005).⁴

Questions for the IMF

The ongoing debate on corporate democracy has a strong parallel in the world of inter-governmental organizations. The Fund’s ownership structure is not within the scope of the IEO governance evaluation or the current study. However, the issue of 1S1V raises an interesting question for the IMF: what is the Fund’s equivalent to “one share”? Has that definition changed with the shift of the IMF’s focus away from lending activities and towards a more diverse mix of surveillance, crisis prevention, crisis management, monitoring, and lending activities? Does the Fund adequately represent and give sufficient voice to smaller shareholders?

Principles That Cut Across Governance Areas

Principle 9. The board should have a leader who is not the CEO. Good practice requires a leader for the board who is not the CEO, in order to increase the CEO’s accountability to the board and strengthen the board’s independence. In a combined chairman/CEO model with no CEO-independent leadership for the board, the CEO would have control over the board’s agenda, the information provided to directors, and the conduct of board meetings, thus dominating decision making. This would render it difficult for the board to exercise independent judgment or to meet without the presence of the CEO to objectively evaluate his or her performance or identify and discuss potential CEO conflicts of interests.

Overcoming the combined chairman/CEO impediment to board independence can take place either through a split between chairman and CEO positions or through the designation of a “lead director” or “presid-

⁴Application of the one share—one vote principle in Europe.” Commissioned by the Association of British Insurers.

ing director.” In the latter models, a director is designated from among independent board members and charged with convening and leading independent directors’ meetings as well as reviewing the board meeting agenda with the CEO.

Governance Codes

Two-tiered boards by definition require a split between chairman and CEO, whereas unitary boards offer the option of split or combined positions. As laid out in the OECD Principles (OECD, 2004), in unitary boards, governance codes usually propose the separation of roles. The Combined Code (U.K.) is particularly clear on the issue, stating that “There are two key tasks at the top of every listed company—the running of the board and the executive responsibility for the running of the company’s business” and that these two roles should be split between two individuals. The Japanese Corporate Governance Forum Principles also require separation and mandate an explanation to shareholders when a combination is unavoidable. U.S., French, and Italian corporate governance codes do not explicitly require splitting the positions.

Whether the chairman and CEO positions should be split or combined has been subject to endless debate with no clear winner. One can see advantages and disadvantages to both models. Combined roles offer a centralized leadership and more agile structure but can put management interests above those of shareholders. Split roles allow the CEO to focus on running the company and permit further board independence, but can result in power struggles and confusion about company leadership.

Private Sector Practices

While two-tier board structures—common in continental European countries such as Germany, the Netherlands, and Austria—by nature require a split between the leaders of the supervisory and management boards, unitary boards allow for either model. In the world of one-tiered boards, almost all British companies have split the roles, versus only 33 percent of U.S. companies. The “lead director” model—whereby a director is designated among independent board members and charged with convening and leading independent directors’ meetings and as reviewing the board meeting agenda with the CEO) has been on the rise in the U.S., where 96 percent of companies had a lead or presiding director in 2006 (Spencer Stuart, 2006c: 12).

A relevant trend in two-tiered structures is the increase in companies with non-executive chairmen. Having a non-executive chairman reinforces the latter’s independence from the CEO and thus ability to

effectively disagree with the CEO. In the Netherlands, for example, 95 percent of companies had a non-executive chairman in 2006 versus 86 percent the previous year (Spencer Stuart, 2006b: 9).

Questions for the IMF

The consensus around having a leader on the board who is not the CEO, as well as the rise of the “lead director” model, in practice begs the question of how the Fund can succeed in both alleviating the MD’s workload and putting checks and balances on his or her power. Is it possible or desirable to extend the responsibilities of the current DMDs or Dean of the Executive Board? Under what circumstances is it desirable for the Board to meet without the MD’s presence? Such sessions may be beneficial for the purpose of discussing the CEO’s or management’s performance, for example.

Finally, the IMF MD is currently responsible for two distinct aspects: the political and the technical. Can and should the Fund consider a clearer split of those responsibilities between individuals?

Evaluation

Principle 10. Boards and their members should be evaluated annually. Boards are urged to conduct annual self-evaluations (at the board and committee levels) and CEO evaluation. Board evaluations, in particular, are used as a tool to raise issues, increase the board’s ownership and accountability, and identify and track improvements. Individual director evaluations are less common but are on the rise as a way to promote positive behavior and continued learning by board members.

Governance Codes

Many corporate codes recommend annual evaluations to gauge whether the board and its committees are functioning effectively. The NYSE requires that boards and their committees conduct self-assessments at least annually but makes no such demands for director self-evaluation. The U.K. Combined Code recommends that the board should undertake annual evaluations of the its own performance, as well as its committees and individual directors. Other codes make vaguer recommendations. In Germany, the Supervisory Board is expected to “examine the efficiency of its activities on a regular basis” (German Government Commission, 2006: 20). The TSE simply mandates the “development and improvement of a mutual monitoring system by directors” (Tokyo Stock Exchange, 2004).

Private Sector Practices

Practically all (96 percent) of U.S. S&P500 boards have institutionalized an annual process to evaluate the CEO's performance, and this process is increasingly becoming the responsibility of the entire board rather than of a specific committee. A large majority (81 percent) also conduct full board evaluations (see Annex 4 for a sample questionnaire), while around 73 percent conduct committee evaluations and only around 40 percent perform individual director evaluations (Spencer Stuart, 2004).

Individual evaluations can be conducted in a variety of ways; self- and peer-evaluations are the most common, and use of committees less so. In the Netherlands, supervisory boards are increasingly performing assessments of their own boards and management boards; around 92 percent of the supervisory boards assessed their own performance and around 85 percent assessed that of the management board (Spencer Stuart, 2006b).

Questions for the IMF

Currently, the IMF Executive Board is very different from private sector boards in that it conducts no evaluations. Given that evaluating the Board's performance as a whole is less politically sensitive than evaluating the MD or individual directors, can the Fund easily implement Board evaluations as a tool to promote positive change? Such evaluations need to be well planned and be blessed with the commitment of the Board to address the issues raised. Would the Fund be better off with an internal evaluation process? Or would an external consultant be a better option to ensure a transparent process and voicing of sensitive issues? For MD or individual director evaluations, the Fund could also choose among self-evaluation, peer-evaluation, or evaluation by a committee.

Conflicts of Interest

Principle 11. There should be a process for managing conflicts of interest. The issue of conflicts of interests is minimized by the trend towards more independent directors who are able to provide independent oversight of management activities. Good practice requires that board members disclose any personal interests in a transaction conducted by the company in order to protect the organization's interests.

Governance Codes

Governance codes require board members to act with integrity and disclose to other members if they have any personal financial interests in

a transaction conducted by the company or the possibility of personally exploiting an opportunity that rightfully belongs to the company. This requirement is laid out clearly in various codes including the German and U.K. codes. The Dutch Corporate Governance Code (*Tabaksblat* Code) specifically defines conflicts of interest and how to deal with them. It mandates that “a management board member shall immediately report any conflict of interest or potential conflict of interest [. . .] and shall provide all relevant information, including information concerning his wife, registered partner, or other life companion, foster child and relatives by blood or marriage up to the second degree” (Committee on Corporate Governance, 2003). The same code specifies that the supervisory board should decide whether there is a conflict of interest without the concerned board member’s presence.

Codes generally identify the areas of nomination, remuneration, and audit as those where potential conflicts of interest are high, and so prescribe committees staffed by independent directors to monitor and regulate these areas.

Private Sector Practices

Good practice involves the elaboration of codes of ethics that clearly define conflicts of interest as well as the process for dealing with them. Nokia makes such information available to the public in the form of a three-page document, the Nokia Code of Conduct (revised 2005), available on the company’s website in 31 different languages.⁵

Business academics recommend that directors be explicit with the CEO/ chairman as well as board members about any conflicts of interest they may have, as well as recusing themselves from discussions where such conflicts of interest may arise. Carter and Lorsch (2004) identify CEO evaluation and management compensation and succession as the most obvious areas where private-sector board members may have conflicts of interest.

Questions for the IMF

The Fund may want to consider whether it has sufficiently clear policies and procedures in place for dealing with personal conflicts of interest when they arise. Do all Board members understand what constitutes a conflict of interest? Is there a procedure in place for reviewing and managing conflicts?

⁵www.nokia.com/link?cid=EDITORIAL_64678.

Separation

Principle 12. Board structures need to ensure the separation of management and control. One- and two-tiered structures are the two main models, each based on underlying cultural dimensions. The unitary or one-tiered board structure has a single board that is both the supreme executive body and the supervisory organ. This model emphasizes the role of non-executive and independent directors to ensure control over management. The two-tiered model, on the other hand, assigns the executive and supervisory functions to two separate boards: the supervisory board, which is generally made up of shareholder and employee representatives, and the management board, which manages the company. The most common belief is that both unitary and two-tiered structures can work, provided there is a commitment to establishing clear distinctions between management and control such that there can be control over management.

Governance Codes

Codes vary in their recommendations on board structures, but they share the common goal of ensuring the separation of management and control. Corporate laws in countries such as Germany and the Netherlands mandate two-tiered board structures that allow employees and shareholders to directly oversee management's actions. Conversely, unitary board structures in countries such as the U.K., U.S., and Spain require a balancing of executive, non-executive, and independent directors to ensure that no one group can dominate the board's decision making. Both Japan and Italy have been rethinking traditional structures, with one alternative model emphasizing the need for independent internal audit. In Italy, the 2004 reform of governance law requires that the main board be supplemented by a board of auditors elected by shareholders, or by a German-style two-tiered structure, or by a U.S.-style independent unitary board structure.

Private Sector Practices

Whether companies have unitary or two-tiered boards depends largely on the local cultural environment, and has not evolved significantly over time. What has evolved more is board size. Unitary board structures, on average, seem to be converging around 10–12 board members, down from about 16 in 1980. There are some significant variations by industry, however. U.S. banks have an average of 17 board members; some factors that explain this bigger board size include larger firm size, complex organizational structures (subsidiaries, etc.), and predominantly friendly versus hostile acquisitions (Adams and Mehran, 2003). German law mandates

that 20 members should sit on the supervisory board of companies with 2,000+ workers; these larger boards stay efficient by delegating to committees and ensuring that the concerned members meet with management separately before board meetings. Deutsche Bank's supervisory board, for example, has its employee representatives and shareholder representatives meet separately with management, to consider issues relevant to each before the full board meeting.

Questions for the IMF

The Fund's structure, when compared with structures in the private sector, raises questions about the separation between management and control. With the Executive Board so involved in management and the IMFC exerting no official power over the Executive Board, there is a clear gap in oversight. How can the Fund overcome this gap? Should it consider strengthening the IMFC, giving it more power over the Executive Board? Would it help to simply convene the IMFC more often than bi-annually? Could an independent audit committee bring some (albeit partial) improvements in oversight?

The size of the Executive Board raises questions about effectiveness and efficiency (including effective use of committees) which are both addressed in the two principles discussed below.

Effectiveness and Efficiency

Principle 13. Board operations should be effective and efficient. Regular and sufficient board meetings, appropriate board size, effective use of committees, and adequate and timely supply of material to the board are some private-sector tools used to promote effective and efficient board operations. Efficiency is a particular concern in the private sector, given that boards are non-resident and need to effectively fulfill an extensive set of responsibilities.

Governance Codes

In all matters related to effectiveness and efficiency, governance codes leave a large degree of flexibility to boards, but they do explicitly refer to these practices. For example, the issue of regular and sufficient meetings is frequently brought up in governance codes, even though no specific recommendations on frequency are made. The Viénot Report specifically explains why: "the frequency and duration of meetings are not amenable to the definition of general rules and should be left up to each board to decide" (AFEP/CNPF, 1995: 11).

Many codes also comment on the issue of adequate supply of material to the board. The U.K.'s Combined Code notes that the "board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties (Financial Services Authority, 2003: 22). French, German, and Italian codes likewise emphasize this matter.

Private Sector Practices

The trend towards smaller boards is seen as a major source of greater board effectiveness and efficiency. Other measures include shorter meetings and increased delegation to committees.

The frequency of board meetings varies between three and 30+ meetings a year across the S&P500 (Carter and Lorsch, 2004). However, there is a general convergence around an average of about eight board meetings of about half a day each. Annual averages in Europe are lower in some countries (five in Germany, six in Switzerland and France) and slightly higher in others (ten in Italy and twelve in the U.K.) (Carter and Lorsch, 2004).

Board practices vary widely, but good practice suggests that directors must be both supportive and challenging of management, and reach consensus while encouraging dissent. As regards the material they receive, most directors say they are overwhelmed with volume and unimpressed by content. Carter and Lorsch (2004) recommend that directors carefully define the information that the board really needs in order to ensure that the board is receiving the appropriate information.

Questions for the IMF

Unlike in the private sector, the Fund's Executive Board is a resident board and is extremely involved in management activities. As such, the norms for the frequency of private-sector board meetings are more applicable to a body such as the IMFC that is not involved in management. Should the IMFC meet more often than twice a year to exercise its functions properly? If the Executive Board has not done so already, can it consider defining what information it really needs from management?

Use of Committees

Principle 14. Committees should be used to further board effectiveness and efficiency as well as provide independence. There is a strong trend towards having three main committees staffed by members of the board to ensure efficient use of time and expertise as well as sufficient independence—particularly in functions such as audit and compensation.

Governance Codes

Governance codes increasingly advocate the use of a set of three standard committees: on audit, compensation, and nomination/governance. The NYSE (2003) clearly defines the composition and responsibilities of these three committees:

- *Nominating/corporate governance committee*: made up entirely of independent directors and responsible for (1) identifying qualified individuals to serve on the board; (2) recommending corporate governance guidelines; (3) overseeing board and management evaluation.
- *Compensation committee*: made up entirely of independent directors, and responsible for evaluating the CEO and recommending non-CEO executive compensation to the board.
- *Audit committee*: made up of at least three financially literate members, and responsible for assisting board oversight of (1) the company's financial statements; (2) compliance with legal and regulatory requirements; (3) independent auditor's qualifications and independence; (4) performance of internal and independent auditors.

The U.K. Combined Code suggests having three similar committees. The German code leaves more flexibility, requiring only the audit committee. The Tokyo Stock Exchange code allows a choice between having a separate board of corporate auditors or the three committees.

Private Sector Practices

Most companies have the three standard committees. In Europe, almost all companies had committees in 2005, with the average number trending towards three (Heidrick and Struggles, 2005, and Annex 5 below). The most common committees were much like the ones defined by the NYSE, with around 94 percent of companies having audit and remuneration committees, and around 71 percent having a nomination committee. It is common practice for each committee to have well defined terms of reference as to its responsibilities and authorities as delegated to it by the board. Committees generally meet in closed session and are led by a small number of board members (good practice advocates four or five) who are selected by the nomination committee. In the German two-tiered model, where the supervisory board is made up of employee and shareholder representatives, committees maintain that same 50/50 ratio to ensure fair representation.⁶

⁶Interview with German Bank board member.

Beyond the three standard committees, some organizations create additional committees to address company-specific topics. Resources and chemical companies may have environment committees for example, while financial services companies are likely to have risk committees. Indeed, 70 percent of the top ten Fortune 100 universal banks have risk committees monitoring issues such as credit, market, interest rate, liquidity, and reputational risk.

Questions for the IMF

Today, the Fund's Board committees differ from private-sector committees in that they are several are staffed by management rather than board members and are conducted in open session rather than only with the presence of committee members. Looking at the private sector use of committees raises many questions for the Fund's use of committees today. Should the Fund continue to have Board committees staffed by Management? Or should its Board committees be run entirely by board members? The size of IMF Board committees also raises effectiveness concerns: Are they too large to be effective? Should they be run in closed session? How can the Fund ensure that the right people are selected to sit on each committee, while ensuring that they are representative of the board as a whole?

Further, the private sector stresses the need for clear mandates and clarity on the degree of delegation granted to committees. Has the Fund's Executive Board defined clear terms of reference for its committees? Is there a distinction between information received at the Board level versus at committee level? Do committees have the appropriate degree of decision-making ability? Is there any business now handled by the Board that can be delegated to a committee? Or vice versa? Do committee reports give the right information to the Board?

Having explored the 14 private sector principles, we now turn our attention to how the private sector thinks about measuring governance.

Measuring Governance in the Private Sector

Internal company practices do not generally include rigorous governance tracking but rather rely on board evaluations as a thermometer for the health of their governance structures. External ratings agencies have filled the information gap for shareholders and investors using a plethora of qualitative and quantitative metrics.

Internal Company Practices

Most companies do not conduct rigorous internal tracking of governance practices. They use evaluations and self-reporting metrics instead of indicators, mainly in order to learn and permit continuous improvement rather than for the purpose of evaluation per se. In evaluating board performance and individual performance, companies do collect relevant information for understanding and improving upon their governance structures and policies. From talking to board members we found that these evaluations, done annually or biennially, can provide strong baselines for evaluating improvements over time. At each evaluation, the board automatically goes back to the previous evaluation and is able to see whether there have been improvements.

Of course, these evaluations have the dual role of allowing the board to track improvements as well as galvanizing the board into action; each evaluation is followed by a distillation of feedback and delegation of the responsibility to change governance structures and processes based on that feedback. The types of issues that are uncovered during these evaluations range from operational complaints about meeting length, number of executive sessions, or types of documents received, to more complex issues around the role of the board in strategic decision making and gaps in the skill sets of the members of the board. Qualitative and quantitative metrics can be developed around any one of these issues to measure performance over time.

The private sector performs these evaluations either internally or with the help of outside consultants. Deutsche Bank's supervisory board chose to recruit the help of external consultants to help it get started on its first evaluation, and then repeated the same type of evaluation internally, through the Chairman's Committee, in 2006. Whether internal or external, successful evaluations require a lead director to champion the process.

Best practice also requires a combination of well thought out questionnaires and one-on-one discussions to fully bring out each director's concerns as well as candid board-wide discussions to increase the ownership and commitment of the entire board. The types of questions addressed in the course of board evaluations must probe into directors' perceptions around a full checklist of the board's responsibilities. Annex 4 and Annex 6 provide examples of questions asked in the private sector.

External Rating Agencies

While there are no internationally recognized standards and benchmarks as far as private-sector corporate governance metrics are concerned, a number of companies assisting shareholders and investors have taken the lead in developing corporate governance ratings. The most recognized rating agencies include Institutional Shareholder Services (ISS), Governance Metrics International (GMI), Deminor Rating (sold to ISS in 2005), Standard & Poor's, Audit Integrity, and a handful of others. These companies use different methodologies but generally develop hundreds of qualitative and quantitative criteria to evaluate companies based on securities regulations, listing requirements, and corporate governance codes, as well as perceptions of governance experts.

These criteria generally have a number of governance components. For example, Standard & Poor's Corporate Governance Score has four: (1) ownership structure; (2) financial stakeholder relations; (3) financial transparency and information disclosure; and (4) board structure and process. Governance Metrics International has a slightly broader scope; it looks at six governance components that include the four above plus remuneration and interactions with non-financial stakeholders, including employees and suppliers.

Figure 2 illustrates some of the qualitative and quantitative criteria tracked by ratings agencies, including GMI, Deminor/ISS, and Audit Integrity. Most of these criteria consider whether or not the company adheres to selected practices, as opposed to tracking performance indicators using a particular metric.

Suggestions for the IMF in Creating a Governance Scorecard

To develop a scorecard for good governance, the Fund could draw on two sources of information: comprehensive annual Board evaluations and internal organization metrics similar to those tracked by external ratings agencies in the private sector. While such a process should be run in close coordination with the Board and ensure executive directors' understanding and commitment to the Board evaluation process, it would also benefit from the independence of a Fund office such as the IEO.

Figure 3 is an example of a potential scorecard, with the understanding that this is neither a comprehensive list of metrics that could be tracked, nor one that necessarily reflects the priorities of the Fund,

Figure 2. Governance Criteria Tracked by Rating Agencies

| Areas | Metric | Rationale |
|-----------------------|---|--|
| Strategy and mission | Caliber of board members based on ensuring mix of relevant academic and professional expertise that reflects the needs of the organization (criteria include gender, nationality, functional experience) as well as mix of senior experts and younger more action-oriented members. | High caliber and appropriate diversity of board members are considered strong asset for providing valuable direction and advice to management. |
| Accountability | Percent change in number of company shares held by the senior management. | Shares held by board members are seen as a proxy for commitment to the company. |
| | Board attendance e.g. whether or not all directors attended at least 75 percent of meetings. | Directors' attendance is seen as a critical component of accountability. |
| | Whether or not training and orientation are required for new board members. | Training and orientation are seen as a way to ensure that directors are fully cognizant of their responsibilities. |
| Oversight | Whether or not the remuneration committee seeks professional advice from external consultants. | Performance-based remuneration of management is seen as a key component of effective oversight. |
| | Number of directors serving on the board for more than 15 years. | Belief that directors who have served on board for too long get too friendly with management at the expense of shareholders. |
| | Whether or not there is a policy for non-executive directors to meet before or after every board meeting. | Board independence from management is facilitated by non-executive sessions. |
| | Percent of independent directors on the board. | Board independence is considered a critical element enabling independent oversight of management. |
| Stakeholder interests | Whether or not training is required for audit committee members. | Ensuring that audit committee members have the requisite skill-sets. |
| | Whether or not the company has a policy for selection of auditors that includes either periodic rotation of the outside audit firm or competitive procurement. | This metric stresses the importance of continually evaluating and refreshing auditors. |
| | Number of restated earnings within the past years. | Seen as indicator of poor auditing processes. |

Figure 2 (concluded)

| Areas | Metric | Rationale |
|--------------------------|--|---|
| | Disclosure of criteria used by the board or a board committee to formally evaluate CEO. | Disclosure of non-financial criteria signals transparency to stakeholders. |
| | Whether or not all shares are one-share-one-vote. | Ensuring that there are no special privileges granted to any shareholders, or restrictions imposed on minority shareholders. |
| | Whether or not minority shareholders (e.g., 10 percent of shareowners) can convene an extraordinary general meeting. | This metric is seen as a proxy for minority shareholder voice. |
| | Whether or not the company complies with established workplace codes. | Seen as an indicator for employee relations. |
| | Whether or not the company discloses its environmental performance in its annual report, on its website, or in a special environmental report. | Metric to assess environmental risk management. |
| Structures and processes | Size of the board (e.g., around 12 seen as good practice). | Smaller boards seen as more efficient. |
| | Adequate size of committees (e.g., around 5 members seen as good practice) as well as composition. | Smaller committees seen as more effective. Independence of committee is seen as critical for certain committees such as audit and nomination. |
| | Whether or not executives take part in committee deliberations. | Independence of committee's decision making as key element of good governance. |

which have not been systematically evaluated. Given the uniqueness of the Fund, many of the benchmarks would need to be focused on continuous improvement and thus on comparative historical metrics rather than on external benchmarks.

Many of the benchmarks shown in Figure 3 imply changes to current IMF Board structures and process, and should be taken for what they are: potential examples of what a scorecard might look like. As mentioned previously, any final list of indicators should ultimately be driven by the recommended actions resulting from a comprehensive gap analysis, and should be based on an in-depth review of the Fund's realities.

Figure 3. A Potential Scorecard for the IMF

| Principle | Indicator | Description/ Observation | Objective | Source |
|--------------------------|--|---|--|----------------------------------|
| Strategy and mission | Average years of experience of EDs (and distribution across EDs) | Years should be defined as total "relevant" professional experience | Assesses caliber of board members and is proxy for relevance of IMF | Visible/ traceable metrics |
| Accountability | Percent of board meeting time attended by all EDs | Percent of hours out of total official board time during which all EDs present | Measure engagement and accountability of board members | |
| | Percent of new directors receiving training and orientation | This metric implies training and induction are formalized | Assesses effort of the board in promoting accountability | |
| Oversight | Number of board sessions where MD and DMDs not present | Executive board sessions where management does not take part | Tracks ability of board to independently deliberate on management | |
| Stakeholder interests | Disclosure of criteria used by board or committee to evaluate MD | This metric implies evaluation of MD's performance is formalized | Assesses degree of accountability of the MD to the board and the Fund | |
| Structures and processes | Whether or not executives take part in committee deliberations | This metric implies switch to board-member led and run committees | Assesses degree of independence between management and board | |
| | Ability of board members to speak up in board meetings | Aggregate of director satisfaction scores when answering these questions in annual board evaluation survey (e.g., on a scale of 1–5 from very dissatisfied to very satisfied) | Gauge whether MD is encouraging contributions on the board | Board self-evaluation |
| | Transparency of procedures for contact between management and directors outside board meetings | | Measure to what extent information flowing to the board takes place in a symmetrical/transparent way | |
| | Involvement in determination of Fund's long-term strategy | | Assess whether the board is focused on the right mix of activities | |
| | Level of detail and quality of committee reports to the board | | Gauge whether directors feel that committees are providing appropriate information | |
| | | | | |

Conclusion

This initial phase of work provides a solid fact base that raises some important questions for the Fund to consider as it seeks to improve its governance structures and the performance of its Executive Board. To assist the IMF in starting the transformation that would be necessary to adopt and adapt these good practices and indicators, subsequent phases of work might include: (1) conducting a gap analysis of current IMF governance practices with good practice; (2) outlining a transition/implementation plan with recommendations to close the gaps—ranging from “light touch” improvements to fundamental structural changes; and (3) establishing a final set of indicators to track improvements in governance structure over time.

Annex 1. Sources of Research for Private Sector Governance Principles

Sources were identified across a diverse set of countries and organizations:

| Country/ Organization | Document |
|--------------------------|--|
| Australia | Australian Stock Exchange (2003), “Corporate Governance in Australia.” |
| Canada | Canadian Coalition of Good Governance (2005), “Corporate Governance Guidelines for Building High Performance Boards.” |
| France | Association Française des entreprises Privées et Conseil National du Patronat Français (1995), “Le conseil d’administration des sociétés cotées” (or Viénot I Report), Rapport du groupe de travail. |
| Germany | German Government Commission (2006), “German Corporate Governance Code.” |
| Italy | Italian Parliament (2001), “Riforma organizza della disciplina delle società di capitali e società cooperative, in attuazione della legge 3 ottobre 2001, n. 366.” Committee for the Corporate Governance of Listed Companies, Borsa Italiana (1999), “Report & Code of Conduct” (or the Preda Code). |
| Japan | Corporate Governance Forum of Japan (1997), “Corporate Governance Principles—A Japanese View (Interim Report).” Ministry of Justice (2002), “Commercial Code Revisions in Japan.” Tokyo Stock Exchange (2004), “Principles for Corporate Governance for Listed Companies.” |
| Netherlands | Committee on Corporate Governance (1997), “Peters Report & Recommendations, Corporate Governance in the Netherlands.” Corporate Governance Committee Chaired by Morris Tabaksblat (2003), “The Dutch Corporate Governance Code” (or the Tabaksblat Code). |
| OECD | OECD (2004), “OECD Principles of Corporate Governance.” |

| Country/ Organization | Document |
|--------------------------|--|
| United Kingdom | Financial Services Authority (2003), "The Combined Code on Corporate Governance." |
| United States | New York Stock Exchange (2003), "Listed Company Manual." United States Senate and House of Representatives (2002), "Sarbanes-Oxley Act of 2002." |
| Other | Goldman Sachs (2006), "The Goldman Sachs Energy ESG Index—Integrating Environmental, Social and Governance Factors into Energy Industry Analysis." Heidrick & Struggles (2005), "Corporate Governance in Europe: What's the Outlook?" |

Annex 2. Merrill Lynch & Co., Inc., Board Candidate Guidelines

The Board of Directors should be composed of individuals who have demonstrated notable or significant achievements in business, education, or public service. In addition, the director candidate should possess the requisite intelligence, education and experience to make a significant contribution to the membership of the Board of Directors and bring a range of skills, diverse perspectives and backgrounds to the deliberations of the Board of Directors. Importantly, the director candidate must have the highest ethical standards, strong sense of professionalism and dedication to serving the interests of all the shareholders and be able to make himself or herself available to the Board of Directors in the fulfillment of his or her duties. For those director candidates who are also employees of the Corporation, he or she should be members of the executive management of the Corporation who have or are in the position to have a broad base of information about the Corporation and its business.

The overall ability and experience of the individual should determine his or her suitability. However, the following attributes and qualifications should be considered in evaluating the candidacy of an individual as a director for the Board of Directors:

Management and leadership experience—The Board candidate must have extensive experience in business, education, or public service.

The experience of candidates from the different fields of business, education, or public service should be measured as follows:

Candidates from the field of business: The Board candidate is or has been the Chief Executive Officer, Chief Operating Officer or Chief Financial

Officer of, or holds or has held a senior managerial position in, a major public corporation, recognized privately held entity or recognized money or investment management firm.

Candidates from the field of education: The Board candidate holds or has held either a significant position at a prominent educational institution comparable to the position of university or college president and/or dean of a school within the university or college or a senior faculty position in an area of study important or relevant to the Corporation.

Candidates from the field of public service: The Board candidate has held one or more elected or appointed senior positions in the U.S. federal government or agency, any U.S. state government or agency or any non-U.S. governmental entity or holds or has held one or more elected or appointed senior positions in a highly visible nonprofit organization.

Skilled and diverse background—The Board candidate must bring a desired range of skills, diverse perspectives and experience to the Board.

The following attributes should be considered in assessing the contribution that the Board candidate would make as a member of the Board of Directors:

Financial literacy: Board candidates having a sufficient understanding of financial reporting and internal control principles or financial management experience bring desirable knowledge and skills to the Board.

International experience: International experience is a significant positive characteristic in a Board candidate's profile. Having an understanding of the language and culture of non-English speaking countries will also be considered beneficial.

Knowledge of the duties of director: The Board candidate's aptitude and/or experience to understand fully the legal responsibilities of a director and governance processes of a public company is an essential factor.

No interlocking directorships: The Board candidate should not have any prohibitive interlocking relationships.

Integrity and professionalism—The Board candidate must have the highest ethical standards, a strong sense of professionalism, and be prepared to serve the interests of all the stockholders.

Personal experience: The Board candidate should be of the highest moral and ethical character. The candidate must exhibit independence, objectivity and willingness to serve as a representative of the Corporation's stockholders. He or she should have a personal commitment to the Corporation's Principles of Client Focus, Respect for the Individual, Teamwork, Responsible Citizenship and Integrity.

Individual characteristics: The Board candidate should have the personal qualities to be able to make a substantial active contribution to Board deliberations. These qualities include intelligence, self-assuredness, high ethical standards, inter-personal skills, independence, courage, a willingness to ask difficult questions, communication skills and commitment. In considering candidates for Board membership, the diversity of the communities in which the Corporation conducts its business should be considered in looking at the composition of the Board.

Annex 3. Typical CEO Selection Process

Establish Criteria: Set Goals and Objectives of the Search

- Examine the strategic and market challenges facing the organization
- Identify the leadership skills and attributes necessary to meet those challenges: character/emotional, technical competence in industry and as CEO, administrative and interpersonal skills
 - Include consideration of “soft skills,” e.g., emotional intelligence as well as skills like demonstrates integrity, provides meaning, generates trust, and communicates values
 - Consider valued skills sets (in appropriate moderation), e.g., being a team player, hands-on coaching, operational proficiency, dynamic public speaking, raw ambition, and similarity and familiarity (fit)

Structure Process: Establish Committee to Run a Clearly Defined Search Process

- Establish a search committee that contains:
 - Individuals who have deep knowledge of the organization and its challenges
 - Individuals who are diverse in their functional backgrounds or cognizant of their potential biases
- Enlist the entire board in gathering detailed information about candidates through trusted contacts
- Set a clearly defined, transparent process and timetable that includes candidate identification, short listing, and formal and informal assessments of candidates

Identify Candidates: Define Candidate Pool Broadly and Assess Thoroughly

- Utilize selection criteria to identify broad pool of prospective candidates
- Encourage less obvious candidates to be considered seriously
- Focus on candidates who can best meet the long-term objectives of the organization, not the short-term reaction of Wall Street and the business media
- Use thorough formal and informal assessments/discussions with candidates and colleagues to narrow candidate pool to the short list

Candidate Selection: Choose Candidates on Basis of Goals and Objectives

- Analyze candidates in context to better understand the trade-offs choosing each candidate involves
 - Realize the CEO is an important element of organization performance, but not the only one
 - Recognize the trade-offs involved with any candidate, e.g., insider vs. outside candidate
- Guide selection using the position requirements rather than evaluate candidates against one another
- Avoid political compromises – compromise solutions are often the mediocre candidate in the middle
- Allow search consultant (if one is used) to mediate the sensitive compensation discussions

Source: Dalberg analysis and research of sources including: “Find the Right CEO: Why Boards Often Make Poor Choices,” MIT Sloan Management Review; “Hire the Right CEO” collection of articles in HBR OnPoint.

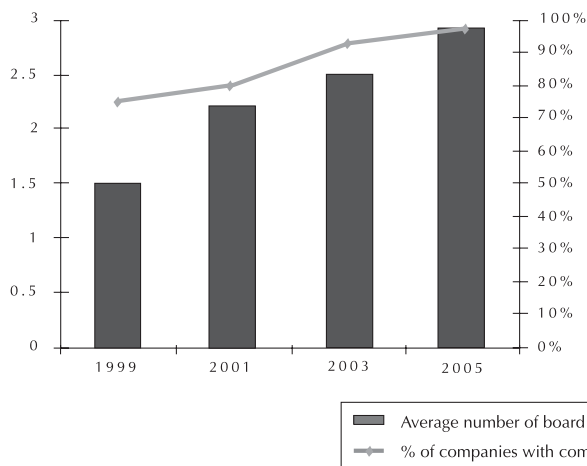
Annex 4. Sample Board Evaluation Questionnaire

From Bryan Cave, LLP:

| Board Structure | | | Comments |
|---|---|---|----------|
| Does the Board as a whole possess the right skills and background to help guide management and the company through the current issues facing the company? | Y | N | |
| Does the Board have the right number of directors? Are there enough directors to fulfill the Board's responsibility without burdening the directors? | Y | N | |
| The Board has _____ inside and _____ outside directors. Should there be more outside directors? | Y | N | |
| Is the process for selecting new directors and re-nominating current directors appropriate? | Y | N | |
| Should significant investors in the company or other outsiders have an ability to nominate directors? | Y | N | |
| The Board does not have a mandatory retirement/resignation age for directors. Is this policy appropriate? | Y | N | |
| The company does not limit the length of service of directors. Is this appropriate? | Y | N | |
| Does the Board have the right Committee structure. At present, it has the following committees: [list committees] | Y | N | |
| Is the annual review of committee memberships and chairmanships appropriate and adequate? | Y | N | |
| Should the Board appoint a lead outside director? | Y | N | |

| Board Meetings | | | Comments |
|--|---|---|-----------------|
| Does the Board have the appropriate number of meetings per year? | Y | N | |
| Does the Board receive adequate materials in advance of the meetings of the Board? If delivery of materials can be improved, please provide input. | Y | N | |
| Are you satisfied with the content of Board meetings? Does the agenda include what is important (rather than mere formalities)? | Y | N | |
| Do you feel that you are able to easily place items on the agenda or to raise issues that are not on the agenda? | Y | N | |
| Are you satisfied with the allocation of time for the different agenda items and feel that all important issues are discussed and analyzed? | Y | N | |
| Are you satisfied with presentations to the Board? | Y | N | |
| Is there sufficient time at Board meetings for presentation and full discussion of the subjects covered? And to address all of your questions? | Y | N | |
| Is the time at Board meetings utilized effectively? | Y | N | |
| Does the Board have open and constructive deliberations? | Y | N | |
| Are the directors well prepared for Board meetings? | Y | N | |
| Is there any business that is handled by the full Board that should be delegated to a committee? | Y | N | |
| Is there any business now handled by a committee that should be handled by the full Board? | Y | N | |
| Do committee reports give the appropriate amount of information to the Board? Do you feel like you know what each committee is working on? | Y | N | |
| Is there sufficient time/opportunity for outside directors to meet independently, either in a formal "executive session" or otherwise? | Y | N | |
| Is the frequency in which the Board meets with members of senior management alone sufficient? | Y | N | |
| Key Board Responsibilities | | | Comments |
| Is the Board adequately and properly involved in determination of the company's long-term strategy? | Y | N | |
| Is the Board effective in monitoring the implementation of the company's long-term strategy? | Y | N | |

Annex 5. Average Number of Board Committees in Europe, 1999–2005



Source: Heidrick & Struggles 2005 Study, “Corporate Governance in Europe: What’s the Outlook?” Dalberg Research & Analysis.

Note: Heidrick & Struggles study based on 300 of Europe’s top companies from the following countries: U.K., the Netherlands, France, Sweden, Spain, Belgium, Portugal, Germany, and Italy.

Annex 6. Ten Questions for Assessing Board Behavior

From *Back to the Drawing Board*, by Colin B. Carter and Jay W. Lorsch (Harvard Business School Press, 2004)

1. Is the chairman’s leadership style effective?
2. Do the chairman (or lead director) and CEO have a good working relationship?
3. Do the chairman (or lead director) and CEO understand their respective roles?
4. Does the CEO encourage contributions from the board?
5. Is the relationship between directors and management a constructive one?
6. Are there agreed procedures for contact between management and directors outside board meetings?
7. Can individual directors raise issues for discussion without difficulty – is dissent OK?

8. Do directors express their views to each other and to management in ways that are constructive?
9. Having reached decisions, are directors cohesive in supporting the board's decision?
10. Is bad news communicated quickly and openly by management to the board?

References

- Adams, Renée, and Hamid Mehran, 2003, "Is Corporate Governance Different for Bank Holding Companies?" *FRBNY Economic Policy Review* (April), pp. 123–42.
- Association Française des entreprises Privées et Conseil National du Patronat Français (AFEP/CNPF), 1995, *Le conseil d'administration des sociétés cotées* (or Viénot I Report), Rapport du groupe de travail. Available via the Internet: www.ecgi.org/codes/code.php?code_id=42.
- Association of Chartered Certified Accountants, 2001, "Corporate Governance: The Stakeholder Challenge." Available via the Internet: www.ifac.org/Credibility/ViewPoints_PubDL.php?PubID=00020.
- Audit Integrity, 2005, *Measuring Accounting and Governance Risk in Public Corporations*.
- Australian Stock Exchange, 2003, *Corporate Governance in Australia: Principles of Good Corporate Governance and Best Practice Recommendations*. Available via the Internet: www.shareholder.com/visitors/dynamicdoc/document.cfm?documentid=364.
- BusinessWeek*, 2004, "One Share, Many Votes," March 29.
- Carter, Colin B., and Jay W. Lorsch, 2004, *Back to the Drawing Board* (Cambridge, Massachusetts: Harvard Business School Press).
- CNN Money*, 2007, "Companies Splitting CEO, Chairman Roles," January 31.
- Colley, John L. Jr., Jacqueline L. Doyle, George W. Logan, and Wallace Stettinius, 2003, *Corporate Governance* (New York: McGraw-Hill Executive MBA Series).
- Committee on Corporate Governance, 1997, *Peters Report & Recommendations, Corporate Governance in the Netherlands* (Peters Code). Available via the Internet: www.commissiecorporategovernance.nl/Information%20in%20English.
- Committee on Corporate Governance, 2003, *The Dutch Corporate Governance Code: Principles of Good Corporate Governance and Best Practice Provisions* (Tabaksblat Code). Available via the Internet: corpgov.nl/page/downloads/CODE%20DEF%20ENGELS%20COMPLEET%20III.pdf.
- Corporate Governance Forum of Japan, 1997, "Corporate Governance Principles: A Japanese View (Interim Report)."
- , Corporate Governance Committee, 2001, *Revised Corporate Governance Principles*. Available via the Internet: www.ifac.org/Credibility/ViewPoints_PubDL.php?PubID=00046.

- Deminor Rating, 2003, *Research and Rating Service Methodology*.
- , 2005, “Application of the One Share—One Vote Principle in Europe,” Commissioned by the Association of British Insurers.
- , 2006. “Corporate Governance Rating and Investor Report—Banco Santander Central Hispano SA.”
- Egon Zehnder International [n.d.], “The Changing Face of Japanese Corporate Governance—A Farewell to Tradition.”
- European Corporate Governance Institute, 2004, *Board Models in Europe: Recent Developments of Internal Corporate Governance Structures in Germany, the United Kingdom, France, and Italy*, Law Working Paper No. 18.
- European Corporate Governance Forum, 2006, “Statement of the European Corporate Governance Forum on the Comply-or-Explain Principle.” Available via the Internet: ec.europa.eu/internal_market/company/docs/ecgforum/ecgf-comply-explain_en.pdf.
- Financial Services Authority, 2003, *The Combined Code on Corporate Governance*. Available via the Internet: www.fsa.gov.uk/pubs/ukla/lr_comcode2003.pdf.
- German Government Commission, 2006, *German Corporate Governance Code*, as amended on June 12, 2006. Available via the Internet: www.corporate-governance-code.de/eng/kodex/index.html.
- Goldman Sachs, 2006, *The Goldman Sachs Energy ESG Index—Integrating Environmental, Social and Governance Factors into Energy Industry Analysis*, Greenleaf Publishing. Available via the Internet: www.greenleaf-publishing.com/greenleaf/abstractpopup.kmod?productid=654.
- Governance Metrics International, 2007, *GMI Research Categories and Sample Metrics*.
- Heidrick and Struggles, 2005, *Corporate Governance in Europe: What's the Outlook?* Available via the Internet: www.heidrick.com/NR/rdonlyres/B1A816CD-0E51-4605-B22C-40CB1B50561D/0/HS_EuropeCorpGovOutlook.pdf.
- International Monetary Fund (IMF), 2006, *What Is the International Monetary Fund?* Available via the Internet: www.imf.org/external/pubs/ft/exrp/what.htm.
- Italian Parliament, 2001, “Riforma organica della disciplina delle societa' di capitali e societa' cooperative,” *Attualazione della legge 366* (October 3).
- Italian Stock Exchange, Committee for the Corporate Governance of Listed Companies, 1999, *Report & Code of Conduct (Preda Code)*. Available via the Internet: www.ecgi.org/codes/code.php?code_id=67.
- Japan Ministry of Justice, 2002, *Commercial Code Revisions in Japan*.
- Knowledge@Warton, 2004, “Splitting Up the Roles of CEO and Chairman: Reform or Red Herring?” June 2.
- London Stock Exchange, Committee on the Financial Aspects of Corporate Governance, 1992, *The Financial Aspects of Corporate Governance* (Cadbury Report) (London: Gee and Co.). Available via the Internet: www.ecgi.org/codes/code.php?code_id=132.

- Lorsch, Jay W., and Andy Zelleke, 2005, "Should the CEO Be the Chairman?" *MIT Sloan Management Review*, Vol. 46, No. 2.
- McKinsey & Co., 2004a, "A New Era in Corporate Governance?" *McKinsey Quarterly*. Available via the Internet: www.mckinseyquarterly.com/Governance/Boards/A_new_era_in_corporate_governance_1414_abstract.
- , 2004b, "How to Separate the Roles of Chairman and CEO," *McKinsey Quarterly*. Available via the Internet: www.mckinseyquarterly.com/Governance/Boards/How_to_separate_the_roles_of_chairman_and_CEO_1512_abstract.
- Mercer Delta, 2003, "Board Assessment—Laying the Foundation for Better Governance."
- New York Stock Exchange, 2003, *Listed Company Manual*. Available via the Internet: www.nyse.com/regulation/listed/1182508124422.html.
- New York Times*, 2007, "Move Over G.M., Toyota Is No. 1," April 25.
- Organization for Economic Cooperation and Development (OECD), 2004, *OECD Principles of Corporate Governance* (Paris).
- Sonnenfeld, Jeffrey, 2004, "Good Governance and the Misleading Myths of Bad Metrics," *Academy of Management Executives*, Vol. 18, No. 1.
- Spencer Stuart, 2004, "Taking a Closer Look: The Board Evaluation."
- , 2006a, "2006 UK Board Index—Current Board Trends and Practices at Major UK Companies."
- , 2006b, "The Netherlands Board Index—Board Trends and Practices at 100 Leading Companies," Ninth Edition.
- , 2006c, "The Changing Profile of Directors."
- , 2006d, "Five-Year Trends Reveal a Changing Boardroom and Greater Independence."
- , 2006e, "Spencer Stuart Board Index—Osservatorio del Consiglio di Amministrazione delle Società Italiane."
- Tokyo Stock Exchange, 2004, *Principles of Corporate Governance for Listed Companies*. Available via the Internet: www.ethosfund.ch/pdf/Code_Japan_principles.pdf.
- Toyota, 2006, *Annual Report*.
- United Nations, 2006, *Comprehensive Review of Governance and Oversight Within the United Nations, Funds, Programs, and Specialized Agencies*. Available via the Internet: www.un.org/reform/governance/report.html.
- United Nations Conference on Trade and Development, 2006, *Guidance on Good Practices in Corporate Governance Disclosure* (New York: United Nations).
- United States Senate and House of Representatives, 2002, Sarbanes-Oxley Act of 2002.
- Van Houtven, L., 2002, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*. IMF Pamphlet Series No. 53 (Washington: International Monetary Fund).

This page intentionally left blank

II

Governance of the Internal Workings of the IMF

This page intentionally left blank

7

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

JEFF CHELSKY

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

Throughout the IMF's history, committees of the Executive Board have been considered a potentially useful tool of institutional governance and

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

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

This paper reviews the evolution of the system of Executive Board standing committees, covering issues of membership, chairmanship, mandate, coverage, and their relationship to management and the Executive Board.³ It draws on survey data, interviews, and sources on good practice in corporate governance in an effort to identify shortcomings in current practice and ways to improve the effectiveness of IMF Board committees in supporting the Executive Board in fulfilling its mandate. The second section discusses the role of board committees in the Fund and within the public and private sectors, and the third section describes the various committees and the motivation for creating each one. The fourth and fifth sections analyze the experience with committee membership and committee

¹"The Board of Governors and the Executive Board may appoint such committees as they deem advisable. Membership of committees need not be limited to Governors or Executive Directors or their Alternates." IMF Article XII, Section 2(j).

²An IEO survey of current and former members of the Executive Board, conducted in December 2007, indicates that almost two-thirds of respondents believe that significant changes in structure and operations would be needed for Board committees to be effective. Only one-quarter considered them to be effective. About 8 percent of respondents considered Board committees to be unnecessary and called for them to be de emphasized or phased out (see IEO, *Governance of the IMF: An Evaluation*, Background Document I, for survey details).

³While the focus of this paper is the Board's standing committees, a number of other committees have been established on an as-needed basis. They include the Committee on Membership (to consider a country's application for membership), the Committee on Rules for the Election of Executive Directors, and the Committee on the Ad Hoc Quota Increase of a Member Country. Periodically, the Board also convenes working groups of executive directors for specific purposes (e.g., drafting a Code of Conduct for executive directors, reviewing Management's compensation package, reviewing the Board's committee structure).

chairs, and the sixth section notes the findings of previous reviews. The seventh section highlights factors that may be undermining committees' effectiveness and the eighth section makes recommendations for improvement, so that committees can make a greater contribution to the Fund's internal governance. The final section concludes.

Role of Board Committees

While Board committees have been part of the IMF's internal governance structure throughout the Fund's history, only a small portion of the Board's work is carried out in committee. Between 2003 and 2007, for example, there were only 24 committee meetings, on average, per year, compared with almost 400 meetings of the Executive Board.⁴ With a few exceptions, only the Executive Board can take decisions on behalf of the IMF;⁵ committees can only make recommendations to the full Executive Board.⁶

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

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

While the use of committees may improve the work of the board they may also raise questions about the collective responsibility of the board and of individual board members. In order to evaluate the merits of board committees it is there-

⁴"Selected Workload Indicators of the Executive Board, 2003–07," IMF Secretary's Department. This includes both formal and informal meetings, but excludes informal policy seminars.

⁵There are limited exceptions (e.g., for the Pension Committee, Ethics Committee, and Committee on Administrative Matters).

⁶Rule C-11 of the IMF's Rules and Regulations stipulates that "there shall be no formal voting in committees and sub-committees."

fore important that the market receives a full and clear picture of their purpose, duties and composition...The accountability of the rest of the board and the board as a whole should be clear. (OECD, 2004: 6)

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

Individual Standing Committees and the Motives for Their Creation

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

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

- A desire by executive directors to have more influence on decision making by providing staff and management with feedback and guidance prior to formal consideration of an issue at the Executive Board;
- The need for a forum in which executive directors can less formally discuss detailed, more technical, or more complex issues, and

⁷In January 2008, the Executive Board expressed its intention to amend Rule C-5(2) of the Fund’s By-Laws to indicate that “it is not normally expected that non-Committee members would speak at Committee meetings, but rather, that such non-members’ interventions would address issues or perspectives not otherwise put before Committee members” (EBD/08/10). However, legal language to enact this intention has yet to be adopted.

thereby provide better advice to their authorities and inform and focus subsequent Executive Board discussions;

- With the Executive Board chaired by the Managing Director, committees chaired by executive directors allow for regular discussion of issues independently of management, giving directors full control over the timing of meetings and agendas and the formulation of recommendations;
- Committees provide a vehicle to discuss some issues pertaining to the operations of the Executive Board or independent evaluation; and
- By promoting a division of labor among executive directors, committees can enhance the Board's efficiency.

Committees Established 1947–69

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

Each of these three committees was established for somewhat different reasons. The need for the *Committee on Interpretation (CoI)* (of the IMF Articles of Agreement) likely reflected the Fund's early stage of development. As a wholly new international organization, the Fund had no outside body or precedents that could help clarify the meaning of its statutes. The CoI, chaired by an executive director, provided a channel for its shareholders (and founders) to shepherd the Fund's mandate by retaining control over the interpretation of its founding documents.⁸ The CoI still exists but has not met in almost 50 years.

The *Committee on Liaison with the ITO*, also chaired by an executive director, provided a vehicle for shareholders to directly manage the evolving relationship with the Interim Committee of the International Trade Organization, which was to have been one of the Bretton Woods "sisters."⁹

⁸A Committee on Interpretation was also created within the Board of Governors.

⁹With the failure of negotiations to establish the ITO, this committee was renamed the Committee on Liaison with the Contracting Parties of the GATT in 1950. The Chairman of the Committee led IMF delegations to GATT consultations. Over time, and as the parameters of the relationship were established and clarified, this task was delegated to IMF staff.

In early 2008, the CLWTO, as it had then become, was replaced by the Committee on Liaison with the World Bank and Other International Organizations, with a mandate to promote greater coherence in the international economic, financial, trade, and development agenda by “tak[ing] stock of developments in the policies and programs of other international organizations with complementary mandates to that of the Fund. . . .” The expanded mandate also reflected a formal acknowledgement by the Executive Board that weak Bank-Fund collaboration was a significant determinant to the effectiveness of each institution.¹⁰

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

The *Committee on Executive Board Administrative Matters (CAM)* was created in 1951 to formalize a series of ad hoc committees that had been established to address various administrative issues involving executive directors and their staff (including, for example, office size and EDs’ travel).¹¹ The motivation for creating the CAM was a desire to deal with issues pertaining exclusively to EDs and their staff (and therefore not of direct concern to the mandate of the Fund) more efficiently and in a less formal setting than the full Board allowed. The CAM was initially composed of the most senior EDs and its recommendations were usually sent to the full Board for approval on a lapse-of-time basis.

The *Committee on Administrative Policies (CAP)* was created in 1969 to consider questions of Fund-wide administrative policy that required action by the Executive Board and that were referred to it by the Managing Director or by the Board itself (e.g., staff medical benefits, education allowances). Issues pertaining to the administrative budget or general salary increases were explicitly excluded from its terms of reference.¹² Chaired by

¹⁰This issue was highlighted in the Final Report of the External Review Committee on Bank-Fund Collaboration (The Malan Report), February 2007.

¹¹The Board of Governors of the IMF and World Bank has established a Joint Committee on Remuneration of Executive Directors and their Alternates, with responsibility for considering “all matters affecting the remuneration and other benefits of the Executive Directors of the Bank and Fund, and of their Alternates.”

¹²This was accepted by the Board despite pressure from at least five executive directors to have these budget and salary issues included in the mandate. See, for example, “Mr. Palamenghi-Crispi’s Statement on Proposal to Create a Committee on Administrative Policies,” Executive Board Meeting 69/94, October 13, 1969.

the Managing Director, the CAP was created to help improve efficiency and reduce the length of discussions in the Board on matters that required a Board decision but did not necessarily warrant the full Board's attention. Not all directors were convinced that the CAP would achieve this objective and they agreed only reluctantly to its establishment.

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

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

Committees Established 1994–Present

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

An *Agenda and Procedures Committee (APC)* was established in 1998 to “consider ways to avoid undue bunching in the Board's schedule, and to allow adequate time for preparation by executive directors and efficient use of time spent in Board meetings,” but its mandate and status as a standing

committee were not formalized until two years later. To some extent, the APC emerged out of discussions during the 1997 EDs' retreat, organized by the Dean of the Executive Board, during which many executive directors and alternates expressed concern with frequent changes in meeting agendas and a lack of sufficient notice of discussions of important policy and country issues. The new Committee would, it was hoped, provide a forum for EDs to interact directly with the Secretary who was encouraged "to plan the Board's calendar according to the wishes of the Board, rather than the staff and management."¹³

The *Ethics Committee* was created in 2000 to consider matters related to the recently adopted Code of Conduct for Members of the Executive Board and to give guidance to those covered by the Code: executive directors, alternates, and senior advisors. Given the potentially sensitive nature of its deliberations, the Ethics Committee's meetings are restricted to committee members. But to date, it has not met to discuss a case of ethical misconduct nor does it have any written procedures on how cases should be dealt with.¹⁴

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

The short-lived *Induction Committee* was formally constituted in December 2000 following the release of a report prepared by an Informal Committee on EDs' Induction,¹⁵ which had been set up in early 2000 with a mandate to consider and propose improvements to the orientation of incoming EDs and alternates. The Induction Committee was composed of EDs, with a representative of the Secretary's Department serving as its

¹³Summary Record of the first meeting of the APC, Meeting 01/1, January 11, 2001.

¹⁴In February 2005, the Committee sought Board approval to hire an external consultant to assist in carrying out its functions (see EBAM/05/22). However, the chair who oversaw this initiative left the committee and the new committee chair, who took over in June 2005, did not pursue the issue.

¹⁵"Induction of EDs/AEDs into the Fund: Report to Directors by the Induction Committee," November 2, 2000.

secretary. It was established around the time that the Executive Board experienced a sharp increase in turnover. The Induction Committee was abolished in November 2002 and instead the Secretary's Department undertook to coordinate a series of workshops for new Board members to discuss procedures and practices for decision making in the Fund. These workshops have featured presentations by senior IMF staff and incumbent members of the Board and have covered a range of issues, including the Executive Board's Code of Conduct and the summing up procedures for Board discussions. Their content has evolved, partly in response to feedback from participants. With such a process in place, it may have been felt that a formal Board committee was no longer necessary.

The creation of the *Committee on the Annual Report (CAR)* in 2004 was motivated by several considerations. In part, it was a response to the results of a survey undertaken by the IMF that showed that the IMF's *Annual Report*—one of the major vehicles of Executive Board accountability—was being read by a surprisingly small share of its target audience.¹⁶ This finding motivated a number of executive directors to call for a fundamental rethink of the report's format and content. There were also perceived efficiency gains from having a Board committee oversee the preparation of the *Annual Report*. Previously, the full Board had met in lengthy sessions chaired by management to review—paragraph by paragraph—a draft text prepared by IMF staff. With the creation of the CAR, these discussions would take place in a less formal, ED-led forum, with the final product sent to the Executive Board for approval on a lapse-of-time basis.¹⁷

Committee Membership

By tradition, standing committees are reconstituted following the general election of executive directors (i.e., every second November).¹⁸ Reconstitution is based on a recommendation from the MD (acting in his capacity as Chairman of the Board), in consultation with the Dean of the Board (who, by current convention, is the longest-serving execu-

¹⁶The preparation of an Annual Report of the Fund is required by Article XII, Section 7(a) of the IMF's Articles of Agreement.

¹⁷"Committee on the Annual Report—Summary Record of Meeting 05/01," EB/CAR/Mtg/05/1, February 15, 2005, p. 2.

¹⁸The rules governing the Pension Committee, which are set out in Section 7 of the IMF Staff Retirement Plan, require annual election of members, who are drawn from EDs and staff.

tive director), and approved by the Board.¹⁹ If a committee member leaves the Board other than at the time of regular elections, a successor is proposed in consultation with the Dean, conditional on the Board's approval. Throughout much of the Fund's history, a practice of inheriting seats was in place, whereby the replacement for a departing ED assumed the committee seats that the ED had previously occupied. This practice was discontinued in the late 1990s, at the request of the Dean, in an effort to facilitate the replacement of departing members with executive directors who had particularly relevant experience and skills. But it was reinstated in January 2008 on the basis of a recommendation of the Working Group of Executive Directors on Executive Board Committees, in the form of a presumption that EDs arriving mid-term would assume their predecessors' committee memberships, in order to encourage "active engagement" by new EDs and to promote "diversity."²⁰

The adoption of formal criteria for committee membership has been discussed on several occasions but efforts at codification have been resisted.²¹ At the close of one such discussion, the Chairman expressed the view that ". . . no formula could be applied to help with nominating committee members, because the requirements for differing committees were diverse. . . ."²² Nevertheless, over time, several informal principles have been accepted to guide the selection process:²³

- Geographic balance in committee composition;
- Rotation among EDs of opportunities to serve on a particular committee;
- Some degree of continuity in committee membership;
- Sharing the burden of committee work among EDs;

¹⁹In contrast, the Chair of the World Bank Board (the President of the Bank) plays virtually no role in the selection of committee members. Rather, extensive consultations take place between the Secretariat and EDs to arrive at a balanced and equitable distribution of responsibilities. If there are serious disagreements, the Dean of the Executive Board plays a role in trying to reconcile differences.

²⁰"Structure and Mandates of Executive Board Committees," January 24, 2008, EBD/08/10.

²¹Perhaps reflecting the more extensive use of committees in the World Bank's governance structure, the principles and guidelines on committee membership were systematically set out in 1994. This was done in what is generally referred to as the "Maehlum Report," prepared by an Ad Hoc Committee of Executive Directors (World Bank, 1993–94). The resulting guidelines were reviewed and updated in October 2006.

²²EBM/70/97, November 4, 1970.

²³For example, see "Selection of Members to Serve on Executive Board Standing Committees and the Pension Committee," Secretary's Department, October 17, 1980, EBD/80/274.

- Relevant experience;
- Seniority within the Executive Board;
- Willingness to serve; and
- Preferences and interests of individual executive directors.

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

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

Geographic Balance

Most of the committees had a regionally balanced membership. There was also a broad balance among directors from industrial, developing, and emerging market economies on most committees, although this was not an explicit principle for membership.²⁴ Africa, despite having only two EDs representing the region, was consistently represented on most committees except for Pension, Ethics, and the APC.

Continuity and Rotation

There is evidence of significant rotation of committee assignments, with major changes in membership occurring on a regular basis. This was particularly the case on the COB which, unlike other committees, has a term of only one year for its members. Among the most active committees (COB, CAM, Ethics, Evaluation, Pension), the average tenure of membership for an individual executive director between 2000 and 2007 ranged between 1.5 years (Evaluation Committee) to 2.0 years (Ethics Committee) (Table 1). Measured by constituencies represented on committees (rather than individuals), average tenure was somewhat longer, ranging from 1.8 years (Evaluation Committee) to 2.8 years (Pension Committee). However, in several instances, particular constituencies maintained their committee membership for extended periods.

²⁴With two exceptions—the Agenda and Procedures Committee—a small majority of whose members were consistently from industrial countries, and the (relatively inactive) Committee on Liaison with the World Trade Organization, on which developing countries consistently formed a clear majority.

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

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

Sources: Executive Board Documents, and IEO staff estimates.

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

Sharing the Burden of Committee Work

Committee memberships appear to have been evenly distributed among EDs. There are currently 55 committee seats, implying an average of 2.3 memberships per ED. Three quarters of EDs are on either two or three committees, with two EDs holding four committee memberships each and a further two holding no memberships.²⁵ This is a more even distribution than in 1970 (when the number of memberships per ED averaged 1.9 per ED and ranged from none to five), but it is less even than in 1980 (when memberships per ED averaged 2.1 and most EDs sat on two committees each).

²⁵This is likely a temporary phenomenon, partly reflecting the recent arrival of new EDs, as reconstitution was being delayed at the time of writing, pending the presentation of the report of the Working Group of Executive Directors on Executive Board Committees in January 2008.

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

In practice, EDs (or their staff) attended all Executive Board committees (except the Ethics Committee) regardless of their membership status. As such, the actual effort that directors devoted to committee work may not have conformed to their formal membership or the number of committee memberships. That said, EDs who were committee members were more likely to participate in committee meetings themselves, rather than via their alternates or advisors. For example, the attendance records for the most active Board committee—the COB—show that, on average, around half of the EDs who were COB members attended the committee meetings, whereas only one-quarter of EDs who were not COB members attended. Four-fifths of committee members were represented by their ED or alternate, on average, compared with just under two-thirds of non-members. The remainder of the constituencies were represented by advisors to EDs.²⁶

Skills and Experience

Given the specialized nature of the work of a number of the committees (e.g., Budget, Pension, Ethics, or Administration), relevant expertise is likely to be important if committees are to be effective. The importance of having mechanisms in place to ensure that directors have the skills necessary to participate effectively in Board (including committee) work is widely acknowledged as a requirement for good corporate governance. For example, Spain's *Instituto de Consejeros—Administradores* includes within its *Code of Good Practice for Directors* a requirement that “an induction program must be in place in order to ensure that each director becomes acquainted with the company in a sufficient and rapid manner...the continuous training of directors falls under the chairman’s responsibility who must also ensure that such programs are available for directors and that they are conducted in an adequate manner” (Instituto de Consejeros—Administradores, 2005: 12).²⁷

²⁶The COB is generally considered to be among the most important of the Executive Board committees; members’ attendance at meetings of other committees may not be as good.

²⁷Similar requirements are also considered “best practice” by the Australian Stock Exchange Governance Council.

It is difficult to gauge the extent to which skills and experience were taken into account in deciding on committee membership. Interviews for this study suggest that skills and experience were informally taken into account to some extent, but no deliberate effort seems to have been made to articulate the skills and experience most needed by individual committees and what, therefore, was expected from committee members. Without any even notional criteria, decisions on the desirability of particular skills were left to the discretion of the Dean of the Board and management.²⁸

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

While periodic seminars were organized for EDs to inform their work, and EDs and their staff have access to training through the program of seminars and courses provided by the IMF Institute, little or no training was systematically targeted to help Board committee members acquire or upgrade specialized skills that they may need to fulfill their particular responsibilities.²⁹ No systematic effort was made, for example, to train members of the Ethics Committee on applying the Board's Code of Conduct or dealing with ethical transgressions, beyond some basic familiarization with the Code, despite the fact that committee members are expected, according to the terms of reference, to give "guidance to [executive directors] on ethical aspects of conduct of their alternates, advisors, and assistants." The situation may be somewhat better with respect to budget issues, where the Office of Budget and Planning has indicated that it has made periodic efforts to explain Fund budget practices to executive directors. However, these efforts fell short of providing systematic and structured training targeted to new members of the COB on the structure and evolution of

²⁸EDs' lack of adequate experience or training in some specialized areas is an issue that has been raised in a number of background papers prepared for the IEO Evaluation on IMF Governance. For example, Campbell (2008) notes that "the Ethics Committee members, who are responsible for conducting investigations, do not receive training on how to conduct an effective investigation of alleged misconduct." It is conceivable that a perceived lack of a requirement for training or past experience in dealing with ethical issues (including with respect to protocols to protect "whistleblowers"), could explain why this committee has never actually met to discuss any ethical transgression.

²⁹These include, for example, the Fund's budget processes, IMF accounting and audit systems, institutional financing mechanisms, and implementation of the Executive Board Code of Conduct.

IMF budget practices. The orientation program for new EDs and their staff focused on introducing participants to general Board culture and processes rather than on developing necessary skills.

Committee Chairs

As with committee membership, decisions on most committee chairs were made by the Managing Director in consultation with the Dean of the Board. The exceptions were the COB and the Pension Committee (and the now-defunct CAP), whose terms of reference require the Managing Director to serve as chair. Periodically, there has been discussion of electing chairs from among committee members, but this idea has gained little support from EDs who have been concerned that “lobbying” or “campaigning” for support would undermine collegiality at the Board.³⁰

In practice, the distribution of committee chairs was broadly balanced between developing and industrial countries, both over time and at any point in time during the evaluation period. It is noteworthy, however, that the APC (the second most active committee in terms of number of meetings) was chaired by an ED from a G-10 or G-8 country every year since November 2000, and that the CoI (which has not met since 1958) was chaired by an ED from a developing country from November 2000 to June 2007. Geographic balance was less in evidence; no ED from either Asia or Africa chaired a committee over the same period.³¹

Most (but not all) committee chairs had prior experience on their particular committees.³² This is particularly important given that effectiveness in chairing at least some of the committees (e.g., CAM, Budget, Ethics) will likely require a good knowledge of past practices and precedents.

³⁰This issue has also arisen at the World Bank, where executive directors came to a similar conclusion regarding the desirability of electing committee chairs.

³¹In comparison, at the World Bank, where standing committees of the Executive Board are generally more active than at the Fund, the distribution of committee chairs by level of development has been more balanced, particularly when one takes into account the practice of having a chair and a vice-chair, one from a developing country constituency and the other from an industrial country constituency. However, the chairmanships of the Audit Committee and the Committee on Governance and Executive Directors' Administrative Matters (COGAM) have tended to be from an industrial country constituency while the Budget Committee chair has tended to be from a developing country constituency. Regional distribution of chairs has also been better, particularly with respect to Asia.

³²Exceptions include CAM 2002; APC 2004; WTO 2002 and 2004; CoI 2004 and 2007; Ethics 2002 and 2006.

To the extent that the committees can serve as a counterbalance to the power of management, a chair unfamiliar with past practices and precedents could be at a disadvantage. It is unclear how the principle adopted in 2004—that directors will, in general, serve a two-year term on a committee—will affect the quality of chairmanship.^{33,34} Related to this, frequent turnover of committee chairs can undermine continuity in committee priorities and work, thereby undermining effectiveness. For example, as suggested above (footnote 15), the departure of the Chair of the Ethics Committee was identified during interviews as a major reason for the failure to pursue efforts to hire an external consultant to assist that committee with its work.

The mandatory chairmanship of some Executive Board committees by management has been a source of controversy for some time. For example, when the CAP was established in 1969, it was with the understanding that it would be chaired by Fund management. At least two executive directors objected at the time that this would break with the practice up to that point of having executive directors as committee chairs.³⁵ They argued that in other institutions and in parliaments, committees of the assembly were never presided over by the chair of the assembly. However, this view did not carry the day, with the clear majority of EDs arguing that, since management had responsibility for the administration of the Fund, it should chair meetings of the CAP.

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

³³“2004 Reconstitution of Executive Board Committees,” Memorandum from the Secretary to Members of the Executive Board (EBD/04/118), November 4, 2004.

³⁴While it might be prudent to adopt a presumption that the chairman be drawn from among prior committee members, a number of members belong to large constituencies with strict biennial rotation of EDs. As a result, their EDs would effectively be excluded from chairmanships were a requirement for prior membership to be strictly enforced. The potential trade-off between effectiveness and voice would need to be carefully managed.

³⁵It was argued at that time that the chairmanship of the Pension Committee by IMF Management was appropriate because this was a joint committee with Fund staff, and therefore not technically a committee of the Board.

Previous Reviews of Executive Board Committees

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

Fundamental questions arose in October 1980, when some EDs raised concerns with respect to a perceived lack of rotation in the membership of the CAM, a possible over-reliance on the "seniority" criterion in deciding on membership, and the extent to which the views of non-committee members were being reflected in recommendations.³⁶ The subsequent Board discussion, based on a staff paper on the process for selecting committee members, resulted in a restatement of the status quo for committee operations, although directors agreed that the CAM should increase in size and that its recommendations should be sent to the Board for discussion rather than approval on a lapse-of-time basis.

The role of committees was reviewed in February 1993 in the context of an EDs' retreat. At that time, it was agreed that the Dean of the Board would prepare a memo on a proposal "to examine issues related to a proposal to review the use of committees, as a means of increasing the Board's efficiency..."³⁷ No record of any such memorandum exists, and this initiative does not seem to have resulted in any substantive criticism of, or change in, Board committee structure and operations.

Various changes were made in the operation of committees early in the current decade. In December 2000, executive directors agreed to include the APC and the Induction Committee among the list of standing committees. After consultation with the Dean of the Board, the Board agreed in November 2002 to abolish the Induction Committee, transform the Evaluation Group of Executive Directors into a standing committee of the

³⁶IMF Executive Board Minutes, Meetings 80/16 and 80/17, February 1, 1980.

³⁷"Summary of Record of Executive Directors' Retreat Discussions," FO/Dis/93/8, March 15, 1993.

Board, extend the tenure for the chair of the CAM, enlarge the COB from ten to twelve members (and increase the number of members who could be reappointed for a second one-year term from three to four), and adopt more transparent guidance on the balance between rotation and continuity of members.³⁸ At the time of the November 2004 reconstitution, a number of changes were introduced to standardize the structure of committees: in particular, that committee members would, in general, serve for two years, and, that committees would consist of eight members including the chair. The committees on Ethics, Pension, and Budget, would, however, remain exceptions to these new practices.³⁹

More recently, a Working Group on Executive Board Committees, consisting of eight executive directors, reviewed the “number, size, composition, terms of reference, and modalities of formation of Board Committees.” Their report, presented in January 2008,⁴⁰ concluded that committees are underutilized and could, with certain changes in their operations and structure, contribute more to the Board’s efficiency and effectiveness in providing institutional oversight.⁴¹ They recommended a clearer division of labor between the Executive Board and its standing committees, with committees providing a forum for deliberations at a more technical or detailed level to allow subsequent Board discussions to focus on those areas requiring further discussion. To achieve this would require, among other things, an expansion and/or clarification of the mandates of some of the committees.

Based on the Working Group’s recommendations, the Board agreed, as noted above, to reorient the mandate of the CLWTO to allow that Committee to focus on the Fund’s relations with international organizations generally and the World Bank more specifically. It also agreed to extend the mandate of the COB to cover income as well as expenditure issues. The Board agreed not to specify the number of committee members (except for the COB) and that there would be a presumption that departing directors would be replaced by their successors. The Board also agreed to have language drafted to amend Rule C-5(a) of the IMF Rules and Regulations,⁴² to introduce an expectation that “normally” only committee members

³⁸“Executive Board Committees,” EBD/02/153, November 15, 2002.

³⁹“2004 Reconstitution of Executive Board Committees,” EBD/04/118, November 4, 2004.

⁴⁰“Structure and Mandates of Executive Board Committees,” EBD/08/10, January 24, 2008.

⁴¹This is consistent with the results of IEO’s survey of current and former members of the Executive Board (see footnote 2 above).

⁴²This rule stipulates that “Executive Directors may participate in all meetings of the Executive Board and of its committees.”

would speak at committee meetings and that interventions by non-members would be restricted to “issues or perspectives not otherwise put before the Committee by its members.” To help take adequate account of the concerns of non-members, committee chairs were expected to consult non-members proactively before meetings. Directors also endorsed the recommendation that the Dean of the Board should set up an informal working group every two to three years to review the overall committee structure, membership selection, and mandates. The Working Group could not reach agreement on whether to recommend establishment of a Committee on Human Resource Policies or an Audit and Risk Management Committee.

Constraints to More Effective Board Committees

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

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

- (a) *Lack of a regular forum for executive directors to discuss many important issues (e.g., budget, human resource policy) independently of management.* Within both the Fund and the World Bank, it has been argued that executive directors benefit from more frequent and regular opportunities to discuss policy issues independently of management. Committees of the Executive Board can provide these opportunities, but not if the committees are chaired by management. As suggested by the experience of the COB and the CAP, management and staff are highly resistant to giving executive directors greater control of what they see as essential managerial functions. This conflicts with good corporate practice as articulated

in a number of countries, which calls for a separation of management and boards of directors.⁴³

- (b) *A tendency for discussions in committee to be duplicated when issues are considered by the Executive Board.* To some extent, this reflects a lack of clarity about the role and comparative advantage of committees relative to the Executive Board. The fact that some committees are chaired by management, which also chairs the full Board, may blur somewhat the distinction between committees and Board deliberations. Unlike at the World Bank, IMF Board committees do not usually result in the preparation of a report to the Board differentiating issues on which agreement exists from issues that require further Board discussion.
- (c) *A lack of trust among non-committee members that their concerns will be taken into account in committee deliberations.* This is reflected in a reluctance of many executive directors to delegate oversight (even without decision-making authority) to a sub-group of the board. As a result, virtually all constituencies are represented at all committee meetings, since committee meetings (except for the Ethics Committee) are open to all executive directors.
- (d) *Lack of accountability in the selection of committee members and chairs.* While interviews for the IEO Evaluation on IMF Governance revealed general satisfaction with the conduct of the informal process for selecting members and chairs, this appeared to be related to the significant confidence that directors had in the judgment of the Dean of the Board between 1997 and 2007. However, given directors' reluctance to elect the Dean,⁴⁴ having a Dean who commands sufficient respect and authority and exercises appropriate judgment cannot always be taken for granted.

⁴³Examples include: (1) *OECD Principles of Corporate Governance* (OECD, 2004: 63-64): “. . . In a number of countries . . . the objectivity of the Board and its independence from management may be strengthened by the separation of the role of chief executive officer and chairman. . . . Separation of the two posts may be regarded as good practice, as it can help achieve an appropriate balance of power, increase accountability and improve the board's capacity for decision making independent of management.” (2) “Principles of Good Corporate Governance: Code of Good Practice for Boards and Directors,” *Instituto de Consejeros—Administradores* (2005): “. . . the positions of Chairman and Managing Director/Chief Executive Officer should be held by different persons.” (3) “Principles of Good Corporate Governance and Best Practice Recommendations,” Australian Stock Exchange Corporate Governance Council, 2003: 7: “The roles of chairperson and chief executive officer should not be exercised by the same individual.” (4) “Report of the Committee and Code of Corporate Governance,” Corporate Governance Committee, Ministry of Finance, Singapore (2001): “Such a separation (of the chairman and CEO) is important because it enhances the independence of the board in monitoring management.”

⁴⁴See, for example, “Structure and Mandates of Executive Board Committees,” EBD/08/10, January 24, 2008, page 2.

- (e) *No systematic attempt to explicitly specify, and promote the acquisition of, the experience and skills considered desirable for membership in particular committees.* Contrary to corporate good practice, there is no system in place to promote, on an ongoing basis, skills development and targeted training for members of individual committees.⁴⁵
- (f) *Insufficient continuity on some committees.* Members on the COB serve for one-year terms (compared with two-year terms for all other committees), and no more than four of the COB's twelve members can be reappointed for a second term. This means that most of the COB members serve on the committee for only a single budget cycle.⁴⁶ In the Evaluation Committee, the average tenure between 2000 and 2007 was 1.5 years, and no more than two of the seven members can be reappointed for a second term. For these, and a number of other committees, only *maximum* numbers of reappointments have been set, suggesting that the concern with the adequacy of rotation outweighs the desire for continuity. The average tenure of members for all the most active committees does not exceed two years. No guidance is in place regarding the appropriate degree of continuity or rotation for committee chairs, despite problems such as those described above.
- (g) *Uneven distribution of committee responsibilities.* As previously noted, there are several instances of individual chairs maintaining membership on particular committees for prolonged periods. This usually occurs within the existing guidelines, which provide for limits on tenure for *individuals* rather than *constituencies*. However, the motivation for facilitating the rotation of committee membership in a multilateral organization like the IMF derives from considerations of voice (i.e., to promote broader participation among different members). This would suggest that limits on terms and term renewals should apply to constituencies rather than to individuals.⁴⁷ Moreover, developing country constituencies have been disproportionately represented on the less active committees, and at least since 2000, no committee chair has come from an African or Asian constituency. Staff have suggested that this is a response to the heavier work burden that some of these chairs may face in representing constituencies with large numbers of countries, many of which have program-intensive relationships with the

⁴⁵The Secretary's Department conducts a series of induction seminars for new EDs, alternates, and their professional staff, but with content of a more general nature, not targeted to the work of specific committees.

⁴⁶The average tenure of members on the COB from 2000 to 2004 was 1.7 years, falling to 1.5 years since 2004. This is higher than the 1.3 years that would be expected if all members began membership at the time of reconstitution. However, in practice, many of them join the COB mid-term and this does not appear to count toward their 12-month term limit.

⁴⁷Conversely, continuity is ensured when the *individual* possessing particular knowledge and experience is retained on a committee.

Fund. Nevertheless, any considerations along these lines need to be weighed against the fact that chairing a committee provides the individual executive director with an opportunity to gain experience and develop his/her knowledge of the institution, with a net effect of increasing his ability to have an impact on the institution.

- (h) *No regular and systematic assessment of the adequacy of the committee structure.* Throughout the Fund's history, changes have been made to the committee structure and mandate largely on an *ad hoc* basis. At times, these have involved the creation of new committees; at times, the abolition of others. Given changing needs and priorities for the institution and within the membership, the Board's recent decision, mentioned above, to review the committee structure, practices, and mandates every two to three years promises an improvement over past practice.
- (i) *Gaps in the current Executive Board committee structure.* In terms of the adequacy of the current structure of Fund Board committees, two main issues have arisen in the past few years. There has been considerable debate on the need to establish a Board Audit Committee to bring the Fund into line with broadly accepted corporate good practice and the practices in most other international financial institutions.⁴⁸ More recently, and in light of the abolition of the CAP, consideration has been given to establishing a Board committee to provide strategic direction on human resource policy. Since the Fund is essentially a knowledge-based institution, its effectiveness cannot be divorced from human resource policy. Moreover, ongoing efforts to refocus the Fund's work and mandate⁴⁹ are bound to have important implications for the required mix of skills and experience of Fund staff and the balance between university recruits and mid-career hires. These are not simply operational or administrative issues but involve clear institution-wide policy decisions that warrant the close involvement of executive directors. The establishment of a Human Resource Policy committee would also make the Fund's committee structure comparable to that in a number of other major international financial institutions.⁵⁰ At present, there is inadequate

⁴⁸See Clark and Chelsky (Chapter 9 in this volume) for a discussion of these issues.

⁴⁹See, for example, "Refocusing and Modernizing the Fund: A Statement by the Managing Director," Committee on the Budget, January 10, 2008.

⁵⁰The World Bank has a Personnel Committee of the Executive Board which is responsible "for keeping under continuing review and, where appropriate, advising the executive directors on, staff compensation and other significant personnel policy issues including strategic staffing, diversity, and conflict resolution." Other international organizations with similar committees include the Inter-American Development Bank (Organization, Human Resources, and Board Matters Committee); the African Development Bank (Committee on Administrative and Human Resources Policy Issues); and the Bank for International Settlements (Administrative Committee, which reviews key areas of administration, such as budget and expenditures, human resources policies, and information technology).

support among executive directors to establish either of these two Board committees, but discussions are ongoing.⁵¹

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

- shortcomings in Board members' expertise and experience in oversight of a large institution;⁵²
- fear of retribution from management and staff for challenging the status quo;⁵³ and/or
- the relatively short time that many directors spend at the Fund (and an even shorter time as members of individual committees).

Main Findings and Recommendations

How can the use of IMF Board committees be improved so as to contribute more to Board efficiency and effectiveness and thereby improve Fund governance more generally? Committee meetings are less formal than meetings of the full Board, thereby facilitating debate and interaction among EDs. They occur earlier in the decision-making process than Board meetings, and often before country authorities have formed firm views on issues and sent instructions to their representatives on the Board.

⁵¹See "Structure and Mandates of Executive Board Committees," EBD/08/10, January 24, 2008.

⁵²In the above-cited IEO survey of current and past members of the Executive Board, 30 percent of respondents considered the skills and experience of the Board as a whole in managing a large organization to be "weak." Thirty-seven percent described the Board's skills experience with financial management oversight to be "weak." Senior Fund staff were even more critical, with 62 and 51 percent considering the skills and experience of the Board as a whole to be "weak" in managing a large organization and with financial management oversight, respectively.

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

Since EDs generally do not circulate statements in advance of committee meetings, they are less likely to be constrained by views they have expressed in writing before the meeting and may therefore be more likely to take their colleagues' views into account in forming their own opinions. Interactive and less constrained discussions can provide a better environment for consensus building and also have the potential to improve the advice that executive directors give their authorities. Finally, committee review of important issues provides an opportunity to save the time at the Board, focusing the Board's discussion on those issues for which consensus remains to be reached.⁵⁴

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

Committee Chairmanship and Opportunities for Independent Discussion

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

Skills and Experience

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

⁵⁴The use of committees to further Board effectiveness and efficiency is identified as a characteristic of good corporate governance in Dalberg Global Development Advisors, Chapter 6 in this volume.

to ensure that the chairs are adequately familiar with the work of their particular committee.

Training and Induction

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

Continuity on Committees

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

Rotation and Voice

With respect to the rotation of committee members and its contribution to enhancing voice within the IMF, *ceilings on term limits should refer to constituencies rather than individual executive directors.* Applying rotation criteria

⁵⁵For example, according to the *OECD Principles of Corporate Governance* (OECD, 2004: 66), “In order to improve board practices and the performance of its members, an increasing number of jurisdictions are now encouraging companies to engage in board training. . . . This might include that board members acquire appropriate skills upon appointment . . . through in-house training and external courses.” Also, “it is appropriate for corporations to provide additional educational opportunities to directors on an ongoing basis to enable them to better perform their duties and to recognize and deal appropriately with issues that arise” (Business Roundtable, 2002). Dalberg (Chapter 6 in this volume) provides the example of British Petroleum (BP) to highlight the importance to good corporate governance of training for directors “on an ongoing basis” and “customized depending on which committees directors are involved in.”

to constituencies rather than individuals would help to ensure that a broader range of constituencies are brought into the work of committees.

Regular Evaluation and Reviews of Committee Structure and Mandates

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

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

Committee Coverage

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

Concluding Remarks

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

Annex 1. Characteristics of Individual Executive Board Standing Committees, Past and Present

| | Current Membership | Current Term | Chair | General Points |
|---|--|---|---|--|
| Committee on the Budget (COB) | Twelve executive directors, MD or DMD. | One-year term, up to four members can be reappointed for a second term to provide continuity. | Managing Director (or DMD) | Established February 1994. In November 2002, number of executive directors was increased to 12 (from 10). |
| Committee on Executive Board Administrative Matters (CAM) | Eight executive directors. | Two years. | Executive director for two-year term. | Established in 1951. Prior to November 2002, chair rotated every 6 months. |
| Agenda and Procedures Committee (APC) | Eight executive directors. | Two years. | Executive director for two-year term, rotating. | Established in 1998 but not made a formal standing committee until 2000; with 6 executive directors prior to 2004. |
| Committee on Interpretation (Col) | Eight executive directors. | Two years. | Executive director for two- year term. | Established in 1947; Committee has not met since 1958. |
| Pension Committee | MD, four executive directors, one staff member appointed by MD, one staff member elected biennially by participants. | Executive directors elected every two years. | Managing Director. | Established in 1948; terms and composition of membership set out in the Staff Retirement Plan. |
| Ethics Committee | Five executive directors, five executive directors as alternate members, General Counsel of the Fund (secretary). | Two years. | Executive director for two-year term. | Beginning in 2006, the Dean requested that the most senior executive directors should be members. |

Annex 1 (continued)

| | Current Membership | Current Term | Chair | General Points |
|--|---|---|---|---|
| Evaluation Committee | Seven executive directors, representing a balance of interests. | Two years; two members may be re-appointed for a second term. | Executive director for two-year term | Transformed from an "Evaluation Group" into a formal standing committee of Board in November 2002. |
| Committee on the Annual Report (CAR) | Three executive directors and three IMF staff (EXR, PDR, SEC) | | Executive director for two-year term | Created November 2004, First meeting— February 15, 2005. |
| Committee on Administrative Policies (CAP) | Six executive directors and the MD or DMD. | Two years, on a staggered basis. | Managing Director or DMD. | Established in 1969; had not met since December 2001; abolished in December 2006 based on recommendation arising from an informal executive directors' lunch in November 2006 on streamlining Executive Board Standing Committees. |
| Induction Committee | Five executive directors. | Two years. | Executive director for two-year term, rotating. | Established as a standing committee in December 2000 but abolished in November 2002. |
| Committee on Liaison with the WTO (CLWTO) | Eight executive directors. | Two years. | Executive director for two-year term. | Established in July 1948; not reconstituted in November 2006, pending expansion of its mandate; in January 2008, it was renamed the Committee on Liaison with the World Bank and other International Organizations with revised terms of reference. |

Annex 2. Origins and Evolution of the Committee on the Budget

The decision in 1994 to create a Board Committee on the Budget (COB) provides insight into the factors motivating the establishment of a major standing committee of the Executive Board and the backdrop of tensions within the Fund on internal governance. Before 1994, budget discussions were held exclusively in the Executive Board, under the chairmanship of the Managing Director. Informal meetings took place periodically outside the Board to discuss budgetary issues, but no records were kept. As early as 1969, and again in 1975 and 1983, several EDs sought to use the Committee on Administrative Policies (CAP) as a forum to discuss the administrative budget.⁵⁶ In the 1983 discussion, one director cited his experience at the World Bank, which suggested that “. . . discussion of the budget in a committee permitted a much shorter and less technical discussion in the Executive Board.”

However, these efforts were consistently rebuffed by management, with Fund staff arguing that budgetary issues were outside the terms of reference of the CAP, whose mandate was “to consider and make recommendations to the Executive Board on those matters of administrative policy requiring action by the Board. . . .” Moreover, it was pointed out that consideration of budgetary issues was explicitly excluded from the scope of the CAP when that Committee was created in 1969, given that, according to management at that time, “(i) these matters are of such overriding importance that all executive directors should be on an equal footing when they come up for discussion in the Executive Board, and (ii) it was unlikely that any time would be saved by additional consideration.”⁵⁷ This view had not altered significantly by 1983, with management’s assertion that “the present process of formulating the administrative budget provides executive directors with appropriate opportunities to review questions of organization and operation, and to set overall budget guidelines.”

Nevertheless, some directors periodically expressed concern about the limited role of EDs in providing input into budget formulation, particularly when pressure for budgetary consolidation began to mount. In 1991, for example, pressure to contain expenditures resulted in the preparation of

⁵⁶For example, see “Mr. Palamenghi-Crispi’s Statement on Proposal to Create a Committee on Administrative Policies,” Executive Board Meeting 69/94, October 13, 1969, and Minutes of the Committee on Administrative Matters, Meeting 83/1, May 26, 1983.

⁵⁷Terms of Reference of the Committee on Administrative Policies, prepared by the Administration Department, August 22, 1983, EB/CAP/83/7, p. 1.

a Board paper on “The Fund’s Administrative Budget Process,” in which management acknowledged that “an early Executive Board involvement in setting work activity priorities and in deciding expenditure allocations will be essential.”⁵⁸ However, despite introducing a number of improvements to the budget process (e.g., by expanding the data base on administrative expenditures), no change was envisaged at that time for the forum (i.e., the Executive Board) in which executive directors would discuss these issues.

It was only in February 1994 that support for providing EDs with the opportunity for a “more systematic and intensive review of the budget at an earlier stage in the budget process than had been permitted under previous procedures”⁵⁹ was sufficient to permit the establishment of the Committee on the Budget (COB).

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

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

... the Committee on the Budget will consider from a broad perspective the Managing Director’s budget proposals, other documentation, and background material circulated by the Managing Director regarding the budget of the Fund. The Committee will make its views on the budget proposals known to the Executive Board and will meet as needed to consider budget implementation. The Executive Board will continue to make decisions dealing with the budget and will keep the work of the Committee under review in order to ensure that Committee procedures remain as efficient as possible. The activi-

⁵⁸July 29, 1991, EBAP/91/196.

⁵⁹Minutes of the Committee on the Budget, Meeting 94/1, February 9, 1994.

ties of the Committee will not preclude any Executive Director from calling on the staff for information or clarification on any aspect of the budget.

While the lack of decision-making power of the COB was never in doubt (in light of Rule C-11 of the IMF Rules and Regulations), the Committee's role vis-à-vis the Executive Board was left vague. The COB terms of reference referred to the efficiency of the Committee's own procedures rather than to the Committee's role in making Board budget deliberations more efficient. It was therefore not surprising that EDs soon began to raise questions and concerns with respect to what was and was not appropriate to discuss during the COB's meetings. EDs even differed as to whether or not the COB would restrict itself to discussions of the administrative and capital budgets or would also consider the broader budgetary framework, including issues related to Fund income (e.g., the rate of charge, anticipated lending, the expected SDR rate for the medium term) and the broader issue of burden sharing.

At the outset, a number of factors clouded the comparative advantage of the COB in adding value to the work of the full Board and providing meaningful direction to management. These included the decision that the COB would be chaired by management, the holding of the first meetings in the Executive Boardroom rather than the less formal Committee room,⁶⁰ the relatively late stage at which the COB was presented with the subsequent year's administrative and capital budget proposal, and the fact that decisions on Fund salaries were taken outside of, and prior to, the meeting of the COB. One director went so far as to argue that the COB was "endorsing—ex post—decisions that had already been largely predetermined" rather than discussing "ex ante—priorities and options."

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

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

⁶⁰See, for example, the statement of Mr. Tetangco, Minutes of the Committee on the Budget, Meeting 94/3, April 7, 1994, p. 8.

that the COB discussion would influence the final budget proposals presented to the Board, the Acting Chairman of the COB noted that:

... The suggestion that the Committee should have a role in finalizing documentation before it was circulated to the Board was not, however, consistent with the terms of reference of the Committee. . . . It had not been envisioned that the Committee itself, as distinct from the Board, would play a role in the formulation of management's thinking in the context of the budget process.⁶¹

Such comments made it clear that management viewed the COB largely as a forum for EDs to ask questions and seek clarification on the MD's budget proposal at a level of detail that was not seen as appropriate for full Board meetings. In this regard, COB meetings functioned more as technical briefings, with no expectation that deliberations would form part of an iterative process leading to a final proposal to be presented to the Board, as many committee members and other executive directors had sought. However, in an attempt to placate the more vocal EDs, the Chairman indicated at the October 2004 COB meeting that "Depending on the available time...ways should be found to improve coordination between the Board and the Committee and between the Committee and management, so as to take into account proposals by the Committee in designing specific proposals for formal Board consideration."⁶²

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

By the end of the COB's first year, the Chair had adopted a practice of summarizing the extent of consensus on key budget issues at the end of each meeting in the form of a short Chairman's statement. This summary, whose language followed conventions similar to those in Executive Board Summings Up, made no distinction between the views of Committee and

⁶¹Committee on the Budget, Meeting Minutes, Meeting 94/4, May 31, 1994, p. 17.

⁶²Committee on the Budget, Meeting Minutes, Meeting 94/5, October 27, 1994, p.10.

non-Committee members.⁶³ By the second year, the focus of discussions shifted away from whether or not the COB had a role to play in setting budget parameters and toward discussions of the budget process and practices, including the appropriateness of dollar budgeting, and how budget discussions could be better aligned with institutional priorities.

In January 2000, the COB met to discuss management's budget proposal. A significant number of EDs were clearly uncomfortable with the large staff increase being sought by management and it was therefore suggested that the budget proposal be revised. Despite this, the Acting Chairman indicated that "he would not attempt to make any concluding remarks, and only take account of what had been said, and there would be an Executive Board discussion [the following week]." That meeting began with the Chairman acknowledging that the views recently expressed by directors had led him to prepare lower medium-term budget options for discussions at that meeting. In retrospect, this was among the earliest examples that the COB, six years after its creation, was starting to play the role that executive directors had envisaged, in vetting and debating management budget proposals to increase the likelihood that sufficient support existed for the proposal brought before the full Board.

Annex 3. Executive Board Committees at the World Bank

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

As at the IMF, committees are not empowered to make decisions for the entire Board. However, all World Bank committees are under the full control of executive directors and have a well developed system of reporting to the Executive Board on areas of consensus, and identifying issues that remain to be resolved. This enables Board discussions to focus on those areas requiring additional attention. Specifically, at the close of a

⁶³Moreover, a review of the minutes from COB meetings during the first year revealed no significant difference between the level of engagement of Committee versus non-Committee members.

committee discussion, the committee chair reads out a short summary of the key conclusions reached. Based on the transcript of the meeting and the chair's summary, staff prepare a more extensive and detailed summary (a "green sheet" report) which summarizes the committee's views on major issues that emerged during the discussion. This is then circulated to committee members and staff for comment. Once finalized, it is circulated to all executive directors. Green sheets have no formal status within the Bank and are not published. However, they provide a useful benchmark against which staff can consider changes to policy documents that will be formally dealt with at the Executive Board.

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

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

There have been a number of major reviews of the World Bank's Executive Board committee structure. Among these was the so-called Touré Report⁶⁴ which identified the need for executive directors to meet among themselves—without management present—"to develop their collective understanding of the Bank Group's situation and to discuss what issues they wanted to address with the Management." It also sought "clearer

⁶⁴World Bank, "Report of the Ad Hoc Committee on Board Policies and Procedures: Conclusions and Recommendations," October 5, 2000. Recommendations contained in the report were part of a broader effort to "sharpen the focus of the Board's work program by redirecting the Board's attention to matters of strategic planning and policy, as well as audit and control."

distinctions between Board/committee procedures for policy deliberations, oversight, and contributions to outreach and partnership, including avoidance of duplication between Board and committee/subcommittee meetings.” The Touré Report called for a review of the committee’s conclusions in twelve months to assess the need for further changes.

References

- Australian Stock Exchange Corporate Governance Council, 2003, *Principles of Good Corporate Governance and Best Practice Recommendations*, March.
- Business Roundtable: An Association of Chief Executive Officers Committed to Improving Public Policy, 2002, “Principles of Corporate Governance,” May.
- Independent Evaluation Office (IEO), 2008, “Survey Results for IEO’s Evaluation of IMF Corporate Governance—IMFC Questions, February 2008” in *Governance of the IMF: An Evaluation*, Background Document I, May (Washington: Independent Evaluation Office of the IMF).
- Instituto de Consejeros-Administradores*, 2005, *Principles of Good Corporate Governance: Code of Good Practice for Boards and Directors*, November (Madrid).
- International Monetary Fund (IMF) and World Bank, 2007, “Final Report of the External Review Committee on Bank-Fund Collaboration” (The Malan Report), February (Washington).
- Organization for Economic Cooperation and Development (OECD), 2004, *OECD Principles of Corporate Governance* (Paris).
- Singapore Ministry of Finance, 2001, “Report of the Corporate Governance Committee and Code of Corporate Governance,” March (Singapore).
- World Bank, 1994, “Report of the Ad Hoc Committee of Executive Directors” (The Maehlum Report) (Washington).
- , 2000, “Report of the Ad Hoc Committee on Board Policies and Procedures: Conclusions and Recommendations,” October 5 (Washington).

8

Summarizing the Views of the IMF Executive Board

JEFF CHELSKY

Clear and accurate summaries of the decisions and views of the Executive Board, which reflect a sufficiently broad range of views from across the membership, are a key element of sound IMF governance. Throughout the Fund's history, various vehicles have been used to achieve these objectives. These have evolved over time, taking into account the nature of the issue under discussion, changes in Board practice, and the evolution in the Fund's approach to transparency. This note describes the main instruments used, reviews their evolution, and 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.

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

Introduction

The ability to summarize clearly and accurately the views and decisions of the Executive Board is a key element of sound IMF governance. With respect to formal decisions of the Board, the constituency and quota system can provide a precise basis for ascertaining support for the issue at hand, but decisions can also be imbedded in meeting summaries, diminishing somewhat their clarity. The expression of Board views, however, does not always involve a clear “yes or no” decision but instead communicates the degree of support on the Board for a particular view or the range of opinion on the issue in question.

Throughout the IMF’s history, various instruments have been used to summarize the content and outcome of Executive Board meetings and/or to convey information about the factors and debate that went into a decision. These have evolved over time, taking into account the nature of the issue under discussion, changes in Board practice, and the evolution in the Fund’s approach to transparency. Reflecting the significant element of judgment involved in any effort to condense the content of an Executive Board discussion, Board summaries have at times been controversial, with questions raised about whether they accurately reflect the “sense of the meeting” and the extent of support for various positions.

This paper describes the main instruments used to summarize Board discussions, reviews their evolution, and assesses the adequacy of current practice from the standpoint of ensuring the continuity, clarity, and accountability of Board deliberations. The next section offers a brief history of mechanisms for summarizing the views of executive directors. The third section describes current practices, and looks at related legal and semantic issues. The fourth section analyzes a sample of summings up (SUs), assessing their clarity and accuracy and attempting to pinpoint the stage in their preparation at which inaccuracies have most often arisen. The final section draws tentative recommendations.

A Brief History

According to the Fund’s *Rules and Regulations*, the Secretary, under the direction of the Managing Director, shall be responsible for preparing a “summary record of proceedings of the Executive Board.”¹ This

¹IMF *Rules and Regulations*, Rule C-14, adopted September 25, 1946.

summary record initially took the form of relatively brief minutes, which noted only the issue discussed and any decisions or agreements reached. Early Board guidance to “refrain from additions to the minutes setting forth in detail the positions of particular members of the Executive Board”² suggests that minutes were not intended as a comprehensive record of all points expressed during a Board discussion. Instead, provision was made for the preparation of “memoranda,” upon request of the Chairman, that would contain a more comprehensive summary of important discussions and reflect the various points of view expressed.³ These “memoranda,” which could be seen as a precursor to today’s SUs, were to be circulated to discussion participants for approval before being incorporated into the official records of the Executive Board. However, they do not appear to have been used widely, if at all.

Initially, meeting minutes were circulated to all executive directors shortly after Board meetings for review and correction, and approval at the subsequent meeting.⁴ The Secretary was required to read draft minutes “aloud and in full” before their adoption, a practice which proved cumbersome given increases in the number and length of meetings, and which was amended several times, most recently in April 1978.⁵ By the 1970s, Board minutes had become quite detailed and had begun to describe interventions by specific directors.

“Stand-alone” summaries of *policy discussions* began to be systematically produced in the early 1970s to make the content of lengthy and complex discussions more easily digestible by ministers, who were at that time being called upon to consider fundamental reforms in the Fund’s mandate and policies.⁶ These were initially referred to as “Summings Up,” and they described the range of views expressed by directors during the discussion and provided commentary and preliminary conclusions by the Chair. By 1980, they were being referred to as “Concluding Remarks by the Chairman” to differentiate them from the SUs that were by then being prepared to summarize the views of executive directors following Article IV consultation discussions (see the next

²Minutes of Meeting No. 177 of the Executive Board, June 10, 1947.

³Minutes of the Thirteenth Meeting of the Executive Board, May 29, 1946, Item 3.

⁴“Rules of Procedure for Meetings of Executive directors,” adopted at the fifth meeting of the IMF Executive Board, May 13, 1946.

⁵Draft minutes are now only required to be submitted for approval “within a reasonable period of time.” In practice, directors generally receive minutes for review between 10 days and two weeks after a meeting.

⁶See, for example, “Valuation and Yield of the SDR, Summing Up and Comments by the Managing Director,” Executive Board Meeting 73/120, December 19, 1973.

paragraph). However, in November 2001, reflecting a desire to regain greater control of the content of summaries of Board policy discussions, directors indicated that “as a general rule,” policy discussions should conclude with a formal SU.

Stand-alone summaries of *bilateral surveillance discussions* did not appear until 1978, following the transformation of Article VIII and Article XIV consultations into Article IV consultations.⁷ The primary audiences for these documents were the authorities of the country under discussion, the general membership, and Fund staff.⁸ The first of these SUs were a single page in length and always began by asserting that directors were generally in accord with the views expressed in the staff appraisal. This was not intended to imply that all directors necessarily agreed with every aspect of the staff appraisal. No reference was made to the views of individual directors. Non-consensus views were frequently ascribed to “most,” “many,” “some,” and “several” directors.

Executive directors not intervening in a particular discussion were deemed to be supporting the views of staff.⁹ This convention derives from the requirement in Rule C-10 of the Funds’ Rules and Regulations that “the Chair shall ordinarily ascertain the sense of the meeting in lieu of a formal vote . . .” where “sense of the meeting” is defined as “a position supported by executive directors having sufficient votes to carry the question if a vote were taken.” However, when there is no explicit decision to be taken, and a range of views have been expressed on a particular issue, the Chair has significant discretion as to how to interpret the silence of an executive director. Partly to improve the efficiency of Executive Board meetings by avoiding a situation where every director feels the need to intervene to voice agreement with the staff, this has been interpreted by the Secretary’s Department (SEC) as a presumption that silence equals agreement.¹⁰ This contrasts with the situation where a formal vote is taken. In these cases, for decisions requiring a simple majority of the votes cast, the silence of an executive director is interpreted as an abstention.

⁷The first stand-alone summary for a bilateral surveillance discussion was for the 1978 Article IV Consultation with the United Kingdom.

⁸Publication was not envisaged at this time; it was only in the late 1990s that the Board began to permit the issuance of PINs based on the SU.

⁹IMF Legal Department’s memorandum on the meaning of silence, April 16, 1987

¹⁰IMF Secretary’s Department, “Compendium of Executive Board Work Procedures,” Section 6(e).

More than 20 years later—in 1999—SUs began to be prepared for Board discussions of Fund-supported programs (“use of Fund resources” or “UFR”). The guidance for these was based on the Board’s long-standing practice of not voicing “reservations or divergent views [which might] reveal the absence of full consensus at least on some aspects of the program, and could potentially weaken the objective of building confidence in the member’s program.”¹¹ These SUs therefore differed substantively from those for Article IV consultation discussions in which differing views and criticism could be reflected.

Prior to 1999, the Board had relied on the executive director representing the borrowing member to convey the views of the Board to the authorities following UFR discussions. But, by the late 1990s, some directors were seeking greater assurance that the specific concerns expressed during the discussion would be fully and accurately conveyed to the borrowing country authorities. In response, “internal” SUs began to be produced to reflect comments that were critical of programs or questioned their viability. For combined Article IV/UFR discussions, this resulted in the preparation of more than one SU. In 2001, the Board agreed to discontinue this practice and instead decided to augment Article IV SUs with text that could describe critical views on programs but that was not included in the version of the SU that was published as part of the Public Information Notice (PIN).

Stand-Alone Summaries Today

This section describes the use of stand-alone summaries today, first describing the preparation and approval process and subsequently noting some legal and semantic aspects.

SUs are currently prepared for all Article IV and UFR discussions except stand-alone discussions on misreporting and repurchase expectations. For a combined Article IV/UFR discussion, the SU contains a section on key policy issues followed by a separate short section at the end on key program issues; only the first part can be published. SUs are also prepared at the conclusion of virtually all policy discussions.

Since 2005, and with few exceptions, *Chairman’s concluding remarks* have only been used to summarize Executive Board seminars (rather than

¹¹“Summings up in the Context of the Use of Fund Resources,” SM/99/48, February 23, 1999.

regular meetings). These remarks include the views of the chair¹² and cannot, therefore, convey a formal decision of the Board. However, they can be used to describe the status of policy discussions on issues under ongoing consideration, in order to identify areas of preliminary consensus and unresolved issues that will need to be addressed.¹³

Chairman's statements (which are not the same as Chairman's concluding remarks) are prepared after the Executive Board adopts a UFR decision or completes a discussion of a country's participation in the Heavily Indebted Poor Countries (HIPC) Initiative or of a Poverty Reduction Strategy Paper (PRSP)-related document. According to SEC's guidelines, "unlike the Summing Up, the Chairman's statement should not attempt to cover the discussion as a whole or reflect divergent Directors' views, but rather convey a few (three to four) points on which the Board placed emphasis. It is drafted as a statement from the Chairman or Acting Chair summarizing the views of the Board. . . . The Chairman's Statement is much shorter than the Summing Up, hence necessitating judgment as to the areas for emphasis. It does not attribute statements to Directors." It is this characteristic that largely differentiates a "Chairman's statement" from a "Summing Up."

The remainder of this paper focuses on SUs, reflecting their predominant role as a record of the views of the Fund's sole decision maker, the Executive Board.

Preparation and Approval of Summings Up

To facilitate their preparation, SUs are drafted in advance of the Board meeting by the department(s) responsible for the staff report that is to be discussed. The draft SU is prepared under the assumption that directors will generally agree with the staff analysis and recommendations contained in the staff report. It is sent to SEC three working days before the Board meeting to be amended, if necessary, to ensure consistency with usual practice.¹⁴ In the case of Article IV consultation staff reports, the

¹²To emphasize that concluding remarks do not represent a decision of the Executive Board, the following disclaimer is placed on the first page of all concluding remarks: "These concluding remarks do not reflect decisions of the Executive Board but rather preliminary views expressed by executive directors in a discussion conducted in seminar format." See Compendium of Executive Board Work Procedures.

¹³A good example of this is "Quotas and Voice—A Possible Package of Reforms: Chairman's Concluding Remarks," August 23, 2006.

¹⁴The Policy Development and Review Department (PDR) used to review draft Article IV SUs but the practice was discontinued earlier this decade.

area department also transmits the draft SU to management. Directors do not see the draft SU at any point.

There are several opportunities for the views of directors to be reflected in the SU. The draft SU can be amended to incorporate views expressed in written statements circulated before the Board meeting (“grays”) (see Box 1). During the Board meeting, the Secretary, under the direction of the Chair, makes changes to the draft SU to reflect oral interventions by directors. At the close of the discussion, the revised SU is read out by the Chair and directors have the opportunity to intervene if they disagree with the characterization of the discussion. When disagreements arise, particularly with the description of the extent of support for a particular view, the Chair generally indicates that the Secretary will “consult the record” and review the language after the meeting.

In the case of Article IV discussions, the SU is submitted for review following the Board meeting, first to the relevant department and then to the executive director representing the country under discussion. Post-meeting changes are supposed to be limited to those needed to ensure the accuracy of the statements and to delete “market-sensitive” material in accordance with the Board-approved policy on deletions. Any amendments that change the policy message of the SU are supposed to be taken back to the Board for consideration.¹⁵ Once finalized, the SU is entered into the record of the meeting and issued as a formal Fund document. If the Board and relevant authorities agree, it is released publicly as part of a PIN.

Summings up pertaining to policy discussions are treated somewhat differently from those for Article IV discussions. This stems from change in practice introduced in 1999 resulting from the desire of a number of directors to be better able to ascertain the conformity of the SU with the content of Board discussions of policy issues. At that time, executive directors also requested that “to the extent possible, discussions on policy items should be concluded with a formal decision, rather than a summing up, and the draft decision should be clearly set forth in the relevant staff paper.”¹⁶ And while the SU for a policy discussion was still read out at the conclusion of the discussion for comments, it was subsequently circulated to directors by e-mail. Initially, executive directors were given two hours to submit to the Secretary (by e-mail, copying all other directors) written

¹⁵According to IMF staff, there have been very few cases of this.

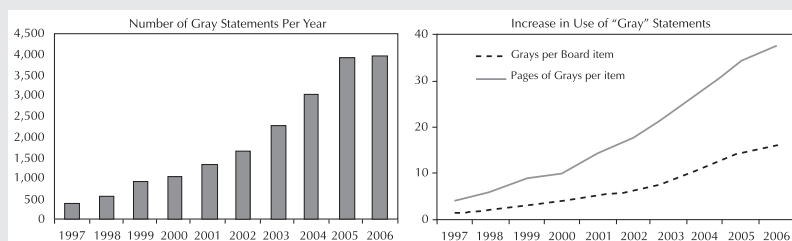
¹⁶“Summings up for Policy Items—New Procedures,” Memorandum from the Acting Secretary to Members of the Executive Board, May 12, 1999.

Box 1. The Sharp Increase in the Use of “Grays”

Executive Directors often circulate written statements in advance of Board discussions (so-called “grays”). The use of grays has increased significantly over the past decade, particularly since 2001 (see figure below). The number of grays per meeting has increased more than ten-fold since 1997, resulting in a more than eight-fold increase in the number of pages per discussion. On average per Board item, almost two-thirds of directors now issue grays, compared with fewer than one in twelve in 1997. The sharp increase in volume is the result of an effort on the part of executive directors to reduce the amount of time spent in Board meetings. At its January 2002 meeting, the Agenda and Procedures Committee (APC) noted that “the main role of grays had evolved since their introduction in 1987, from a vehicle for advance consideration of strongly held views to a means of saving Board time and increasing efficiency.” A similar motivation appears to have been behind the APC’s discussion in June 2004 of “Voluntary Best Practices for Choice Between Grays and Oral Statements and on the Character of Grays and Oral Statements.”

While the advance circulation of grays provides a basis on which staff can refine a draft SU, SEC needs adequate time and capacity to digest and synthesize what is often a large volume of text. Directors are encouraged to submit grays by noon the day before the relevant board meeting. However, this deadline was set before the sharp increase in the number and volume of grays, and has not changed.

According to staff, a majority of grays often arrive after the noon deadline, with a few arriving even on the day of the Board discussion. The responsibility for this does not rest solely with the authors of grays. Executive directors usually await the circulation of the “Buff” statement from the director who represents the country under discussion before sending out their grays. If the Buff is distributed late, the circulation of grays is delayed. Not only does this complicate the preparation of the draft SU, it makes it less likely that directors themselves will have read and absorbed one another’s views prior to the Board meeting.



Source: Secretary's Department, IMF.

comments of a “material nature.”¹⁷ In June 2007, following a recommendation by the APC, the period for comment was extended to one business day. The Secretary attempts to incorporate comments received while strictly adhering to the record of the discussion. Once an amendment has been authorized by the Chair, the text is re-circulated, with no further changes allowed. If the Chair feels that some points require directors’ further consideration, the SU is brought back to the Board.

Legal Status of Stand-Alone Summaries

Formal votes are rare at the Fund, as suggested by Rule C-10 of the Fund’s Rules and Regulations which indicates that the Chairman ordinarily ascertains the “sense of the meeting”¹⁸ in lieu of taking a formal vote. Therefore, while SUs are intended to provide a clear and concise vehicle to communicate the main thrust of a Board discussion, SUs for policy discussions can also have legal weight. Specifically, “in cases where a decision was reached but no formal text was proposed for approval, the SU will, in its relevant part, be regarded as a record of the decision taken.”¹⁹ The “sense of the meeting” is deemed to have been accurately described when “the required voting majority would be very comfortably satisfied if there were to be a vote taken and all, or almost all, directors can go along with the majority view in the sense that they would not vote against it.”²⁰ This formulation is intended to encourage the development of a view that as large a majority as possible can share.

Language in Summings Up: The Use of “Code Words”

For much of the Fund’s history the prevailing view was that there was a “great virtue in being deliberately vague in reporting on executive direc-

¹⁷Accommodation was made to extend the period to four hours when the two-hour period coincided with a Board meeting or when the Board agenda was particularly heavy.

¹⁸Initially, the concept used was “consensus,” defined by the Board as “a position by a majority, but not by all directors” (Minutes of Meeting No. 123, January 21, 1947). The Board subsequently decided to use “sense of the meeting” instead of “consensus.” This was defined as the “position supported by Executive directors having sufficient votes to carry the question if a vote were taken” (Minutes of Meeting No. 173, May 28, 1947).

¹⁹Gianviti (1999). The General Counsel later clarified that for an “understanding” in a SU to constitute a decision, there must be a willingness on the part of the Board for the understanding to have legal effect without further Board action (which implies that a statement of *intent* in an SU, including a commitment *not* to take a particular action, cannot constitute a formal decision). Second, the requisite majority must support the “understanding” which, of necessity, must be consistent with the Articles of Agreement. (BUFF/00/169, November 17, 2000).

²⁰Compendium of Executive Board Procedures, Section 6(c), March 2007.

tors' various positions...as long as the debate on an issue has not yet moved forward enough to allow the Chairman to take the sense of the meeting."²¹ This was particularly the case for Board reports to the Interim Committee,²² where there was a desire to avoid limiting ministers' room for maneuver in formulating their guidance to the Executive Board. "Constructive ambiguity" was part of the justification provided by the Fund Secretary for the use of "code words" (e.g., "some," "many," and "a number") in lieu of precise numbers to summarize the views expressed during Board discussions.

Twenty-five years ago, after executive directors pressed for greater clarity on the methods used to summarize their views, the Secretary clarified the specific definitions of individual code words in a 1983 statement to the Board.²³ Despite this, the meaning of the code words remains clouded by a number of factors, providing scope for discretion in characterizing the degree of support for a particular position. First, as confirmed during several Board discussions, these words are intended to reflect both the number and voting share of directors supporting a particular view, although there was little if any guidance on which factor should dominate. Second, the meaning of code words could change depending on the required majority for a particular decision, implying that the same code word could have different meanings within a single SU.²⁴ Third, not all speakers take unequivocal or unconditional positions, and indications of flexibility (or reference to a diversity of views within a single constituency), could conceivably place a speaker in more than one group. Fourth, the list of code words is not exhaustive. For example, reference to "several" directors frequently appears in SUs but has not been defined. Finally, there is some overlap between the definitions with "a number" and "some" both referring to support by six directors.

²¹"The Definition of Code Words: Statement by the Secretary," Executive Board Meeting 83/11, extract from EBM 83/11, January 12, 1983 on the Eighth General Review of Quotas—Draft Report to the Interim Committee.

²²Precursor to the International Monetary and Financial Committee (IMFC).

²³"A few" = 2 to 4 directors; "some" = 5 to 6 directors; "a number" = 6 to 9 directors; "many" = 10 to 15 directors; "most" = 15 or more directors, "nearly all" = about 20 directors, and "the view is held that" = the view of the United States. (See "The Definition of Code Words: Statement by the Secretary," Executive Board Meeting 83/11, extract from EBM 83/11, January 12, 1983 on the Eighth General Review of Quotas—Draft Report to the Interim Committee. When the definitions were assigned, there were 22 directors on the Board. The size of the Board has since increased to 24 directors.)

²⁴For example, according to the Secretary's 1983 statement, "while 'many' may perhaps be appropriate to describe the sense of the meeting on a matter requiring only a simple majority of views expressed, it would not suffice for an issue requiring a majority of 85 percent of the voting power of the Fund."

Since the creation of this system there has been a pronounced shift at the IMF toward greater transparency, including a presumption in favor of publication for SUs (except for UFR discussions). As a result, current practice is outdated and undermines efforts at transparency, particularly with respect to external audiences for whom the code words have never been clearly defined.

Accuracy of Executive Board Summings Up

There are frequent debates within the Board on the extent to which a particular SU adequately reflects the views expressed by directors during a discussion.²⁵ A 1998 ethnographic study of IMF documentation (Harper, 1998) concluded that, over time, staff preparing draft SUs had become adept at anticipating what would be acceptable to directors, and hence that significant changes to draft SUs during meetings were unnecessary. This conclusion is consistent with the fact that, throughout much of the 1990s, following the reading of the SU, directors rarely raised significant objections at the close of Board discussions. But since the late 1990s, perhaps reflecting the increased likelihood that SUs and concluding remarks would be published as part of a PIN,²⁶ questions about the content or wording of an SU have become more frequent, particularly following policy discussions. That policy SUs tend to be more controversial than those prepared for country discussions is consistent with the results of a recent IEO survey of current and former members of the Executive Board in which respondents expressed a lower level of satisfaction with SUs from policy discussions than country discussions.

Accuracy of Summings Up for Article IV Consultations

The starting point for the preparation of an SU is the staff report on which the Board discussion will be based. In the case of an Article IV consultation report, the staff report concludes with a staff appraisal that summarizes the views and recommendations of staff. In principle, if direc-

²⁵In a recent IEO survey, only 16 percent of the Executive Board and 25 percent of senior IMF staff indicated that SUs “provided clear direction to staff and management.” Of the remainder of respondents, 71 percent of the executive directors, and 48 percent of IMF staff considered SUs to “sometimes” be vague and/or contradictory; 11 percent of the executive directors and 23 percent of staff described them as “often vague and/or contradictory.”

²⁶The percentage of Article IV consultations for which PINs are issued has risen steadily since the Fund began issuing PINs in 1997, and reached 94 percent of the 125 Article IV consultation discussions held in 2006.

tors fully agree with the views expressed in the staff report, there should be little substantive difference between the conclusions of the staff report and those in the SU. In practice, the views of directors often differ from those of staff and it is the former that should be reflected in the SU.

Do SUs accurately reflect the views of executive directors? This section attempts to answer this question for SUs of Article IV consultation discussions. A similar exercise for SUs of policy discussions follows.

Methodology

A recent Article IV consultation for each of six countries was chosen for analysis: Albania, China, Liberia, Italy, Pakistan, and the United States (see Table 1). The countries were randomly selected from each region. The Article IV staff reports chosen were prepared over a relatively short period (November 2005 to February 2007) to minimize the likelihood that the sample would reflect a significant change in guidance to staff or work practices within SEC. Also noteworthy is the large number of interventions for these discussions (more than 90 percent of chairs intervened, on average).²⁷ This is relevant because of the convention for Executive Board discussions that an executive director's silence is "taken as support for the thrust of the staff appraisal and/or proposal."²⁸

The draft SU for each Article IV consultation was compared first with the staff report and then with the final SU.²⁹ Any substantive differences between the draft SU and final SU were compared with the minutes of the meeting at which the staff report was discussed (and with all gray statements submitted in advance) to determine the extent to which the any changes could be ascribed to the statements of directors.

Given the small number of cases chosen, patterns that emerge from this analysis cannot be considered conclusive. Nevertheless, the exercise provides several interesting insights into the SU process.

Results and Observations

All but the SU for Pakistan began with the statement that "directors supported the thrust of the staff appraisal." There was a tendency,

²⁷This excludes the executive director representing the country under discussion, whose views are not reflected in the SU.

²⁸IMF "Executive Board Work Procedures," SM/93/18, January 25, 1993, page 9 and Annex 4.

²⁹As noted earlier, the executive director representing the country under discussion is given the opportunity to review the SU before its finalization and to recommend the deletion of "market-sensitive" material. Our analysis did not attempt to assess the extent to which changes were made at this stage of the process.

Table 1. Summary of Article IV Case Study Characteristics

| | Number of Directors Intervening (Excluding ED Representing Country) | Number of Grays | Pages of Grays | Number of Late Grays ¹ | Voting Share Represented by Late Grays (in percent) | Number of References to Minority Views in Draft SU | Number of References to Minority Views in Final SU |
|---|---|-----------------|----------------|-----------------------------------|---|--|--|
| Albania—2006 Article IV Consultation and Reviews Under the PRGF and EFF | 17 | 15 | 31 | 2 | 4 | 0 | 0 |
| China, P.R.—2006 Article IV Consultation | 23 | 23 | 77 | 4 | 14 | 0 | 7 |
| Italy—2007 Article IV Consultation | 23 | 23 | 54 | 0 | 0 | 1 | 0 |
| Liberia—2006 Article IV Consultation and Staff Monitored Program | 18 | 14 | 28 | 2 | 6 | 0 | 0 |
| Pakistan—2005 Article IV Consultation, Discussion of EPA | 23 | 22 | 57 | 3 | 28 | 2 | 4 |
| United States—2006 Article IV Consultation | 21 | 21 | 65 | 3 | 10 | 9 | 16 |

¹Defined as grays issued on the day of the discussion. This figure understates the number of late grays since, according to SEC guidelines, a gray is considered late if it is issued after noon of the working day before the Board meeting at which the discussion occurs. However, data on time of issuance was not available and the analysis had to, instead, rely on the date of issue.

even when there was broad agreement between staff and directors on the appraisal in the staff report, for the diagnosis of problems and associated recommendations in the SU to be less candid than those in the staff report. The extent to which this was the case varied considerably from country to country, being most pronounced for China and Italy and least so for Liberia. To get a sense of the stage at which these changes were incorporated, the analysis compared the staff appraisal in the staff report with both the draft SU and the final SU.

From Staff Report to Draft Summing Up

In the *draft* SUs (DSUs) reviewed, there was a tendency for the diagnoses and advice to be less candid than those in the staff reports. There were multiple examples of this in the majority of the case studies, albeit with considerable variation in frequency and significance. This dilution of messages before receiving input from executive directors was particularly pronounced in the case of China. The DSU was most similar to the staff report in tone and substance for Italy and Liberia.

There were some noticeable patterns in the way messages were softened. For example, clear warnings about vulnerabilities were sometimes replaced with relatively bland statements. Precise language was often replaced with vague wording. Negative modifiers (e.g., “weak,” “uninviting,” “underdeveloped,” “vulnerable”) were frequently replaced with calls to “improve” or “strengthen” some aspect of policy, albeit from an undefined starting point or level. In many cases, important adjectives found in the staff report did not appear in the DSU.

It would be difficult for directors listening to an SU as read out at the end of an Article IV discussion, particularly those directors for whom English is not the first language, to undertake a thorough comparison between the language in the staff report and the SU and to identify small differences in wording. The consequences of this for institutional accountability and credibility are not negligible, particularly for those countries for which the Fund publishes the PIN but not the associated staff reports. This suggests a need to justify any substantive deviation from the language in the staff report, on the basis either of views that directors have expressed in the Board discussion itself or of exogenous circumstances (such as the severe earthquake that hit Pakistan after the staff report had been finalized).

From Draft to Final Summing Up—The Impact of Directors' Comments

For all six discussions, most directors issued gray statements in advance.³⁰ Almost 90 percent of these statements were issued at least the day before the Board discussion, giving staff at least the evening before the discussion to read them. Late grays (defined as those arriving on the day of the discussion) corresponded, on average, to just over 10 percent of the Fund's voting shares, suggesting no obvious link between the voting weight of a chair and its tendency to issue statements late. As noted, the benchmark used to assess the impact of the views expressed by directors was the DSU prepared by the relevant area department and transmitted to SEC prior to the Board meeting. In comparing the DSU with the final SU, changes attributable to directors' comments can at least be partially isolated.

The record for accurately adapting the DSU to directors' comments was mixed, but on balance, directors' comments did have a noticeable impact on the final SU, causing significant changes to the DSU for all but one of the countries surveyed (Liberia). The treatment of China's exchange rate regime was among the clearest examples of directors influencing the final SU. In several cases, issues that were treated in the staff report but not in the DSU were inserted into the final SU (e.g., a reference to a "soft landing" in the U.S. Article IV; and a reference to the Extractive Industries Transparency Initiative for Liberia). In terms of direction, directors tended to be more positive than either the staff report or DSU.

Reporting of Minority Views in the Final Summing Up

The use of code words in the sample conformed to the 1983 Guidelines. In several instances, however, a view was ascribed to "directors" where it was supported only by a minority. The extent to which minority views were referenced at all differed markedly across countries. While the SU for the U.S. Article IV consultation made extensive reference to a diversity of views, the SUs for Albania, Italy, and Liberia made few if any such references.

The decision on whether or not to report minority views is subject to a degree of judgment and a number of important considerations. For example, in capturing the "sense of the meeting," the Chair may fre-

³⁰Twenty out of 23 Executive directors, on average, amounting to an average of 52 pages of grays per discussion. This compares with an average for all discussions in 2006 of 16.7 grays consisting of 37.5 pages in total. The director representing the country under discussion does not issue a "gray," and his/her views are not taken into account in preparing the SU.

quently seek to find (or even encourage) a consensus view among executive directors.³¹ There is also a need to avoid overly long and convoluted SUs that describe a multiplicity of views on a single subject (particularly, given the recent adoption of word limits on SUs). However, on balance, there was scope to give greater attention to differences of opinion.³² This was particularly true for Italy's Article IV discussion, where there was significant disagreement among directors and between directors and staff, particularly with respect to the treatment of competitiveness, but to which the SU did not refer, leaving the inaccurate impression of an uncontroversial assessment.

In reviewing directors' statements for the discussions in the sample, there was often a lack of precision which made it difficult to understand their position on, or the extent of their support for, a particular point. Several statements contained instances of directors agreeing with a staff assessment or recommendation but following their agreement with major caveats, making it difficult to interpret the view expressed. Another practice that undermined the clarity of directors' positions was the use of the phrase, "I note staff's view that. . .," which if taken at face value, implies neither support nor disagreement for staff's view. It is possible that a neutral position was not intended.

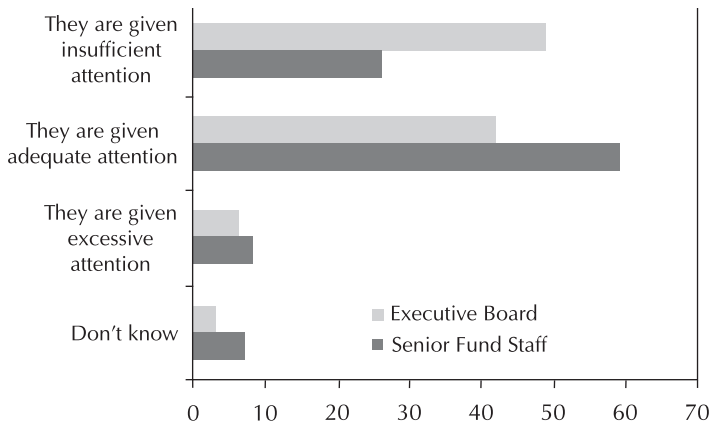
Accuracy of Summings Up for Policy Discussions

SUs for policy discussions can be particularly controversial, particularly when they contain Board guidance or decisions on IMF policies. However, given the consensus-based culture of the Fund's Executive Board, the Chair frequently seeks to avoid narrowly circumscribed positions that have the support of slim majorities. This could potentially require using somewhat imprecise language. But if this comes at the expense of clarity, it undermines the Board's ability to provide effective guidance to staff and management. The need for clarity on decisions, and with respect to Board guidance to Fund staff, is evident in the results of the survey referred to above (Figure 1).

³¹This is less important than in the context of Board discussions (e.g., over policy issues) when executive directors are asked to provide guidance to the institution.

³²This conclusion is consistent with the findings of a recent IEO survey of the Executive Board and senior IMF staff which found that almost half of Executive Board respondents believed that attention to minority views in SUs was insufficient compared with only 26 percent for IMF staff (Figure 1).

Figure 1. How Are Minority Views in Board Discussions Treated in Summings Up?
(In percent)



Source: IEO Survey.

Methodology

The minutes from two policy discussions—“Review of the Ex Post Assessment of Issues Related to the Policy on Longer-Term Program Engagement”(LTPE)³³ and “Precautionary Arrangements—Purposes and Performance”³⁴—were reviewed to ascertain the extent to which the views of directors were taken on board in producing the SU, and the clarity of any decisions that were taken during those discussions. These policy papers were chosen because they were not on issues that required several meetings to resolve and because they involved issues that are not currently under active consideration by the Executive Board. Also, for consistency, both discussions were chaired by the same member of senior management. Both SUs were subsequently published. Given that only two SUs were reviewed, observations are only illustrative.

Results and Observations

In the case of the Board discussion of Ex Post Assessments (EPAs), the SU gave a more positive impression than either the staff report or directors’ comments. Criticism from directors was muted and generalized in the SU, while positive achievements described in the staff report were pre-

³³SM/06/115, discussed May 15, 2006.

³⁴SM/06/120, discussed May 17, 2006.

sented in greater detail. The SU failed to describe the diagnosis for several of the shortcomings in the Fund's experience with EPAs cited by directors, and instead presented a "directional" policy remedy (a similar pattern to that observed for Article IV SUs). For example, whereas the staff report noted that "in most cases, critical aspects of program design were covered to a limited degree," the SU stated that "the value of EPA reports could be enhanced by better selectivity and focus on a few critical issues."

Particularly noticeable was the failure of the SU to reflect the widely held and extensively discussed concern among directors with the lack of independence of EPA mission chiefs. Only the resulting recommendation was cited in the SU (i.e., "most directors" considered that EPAs "should be led by a mission chief from a department other than the home area departments"). Also, the SU contained no mention of the fact—contained in the staff report and cited by a number of directors—that a significant share of EPA mission leaders had indicated that they felt pressured to change key messages in their reports.

The SU made very few references to dissenting opinions. The most obvious exception (cited in the previous paragraph) was in response to the suggestion of staff that there be flexibility to combine EPAs with Article IV consultations (i.e., "most" directors argued that the EPA team "should be led by a mission chief from a department other than the home area departments"). However, in contrast to the rest of the SU, only "a number of directors" wanted to give discretion to area departments and management to decide whether to prepare stand-alone EPA reports. The only other "minority view" reported was in opposition to the proposal not to include undisbursed precautionary arrangements in the definition of longer-term program engagement. Consistent with established understandings, the phrase "the view was expressed" was used to indicate that this view was held by a single large chair alone.

In this SU, the guidance given was clear (e.g., "directors agreed that . . . the definition of LTPE should be unified for PRGF and GRA users)," with a minor exception. On how to treat time spent under precautionary arrangements that remained undrawn, the SU indicated that "directors broadly agreed. . . ." The insertion of the word "broadly" could reflect the opposition of a single director but, in conveying the result of the decision (which was agreement by the Board), it was unnecessary and undermines the clarity of the guidance.

Unlike the EPA discussion, the SU from the discussion of Precautionary Arrangements (PA) extensively reported minority views (making 16 separate references in three pages of text). To some extent, this may reflect the fact that the "Issues for Discussion" section of the PA staff report posed

relatively few direct questions to directors, making the achievement of consensus less critical.³⁵ However, the abundance of minority views on a range of issues reported in this SU created a somewhat disjointed picture, making it difficult to derive a sense of where the debate stood on the impact and usefulness of precautionary arrangements. The SU reads like a “grocery list” of opinions on individual issues, without an easily extractable perspective on the more controversial and important considerations. Also, some of the views ascribed to only sub-sets of directors were in reference to statements of fact, which implies a lack of confidence in the information provided in the SR. This does not appear to have been intended.

Improving the Summing Up Process

In June 2007, the Board’s Agenda and Procedures Committee (APC) held a discussion on improving the process for formulating and finalizing SUs to ensure they accurately reflect directors’ comments. While this discussion concerned only the SUs for policy items, it yielded a number of useful suggestions, including to extend the period for executive directors to review policy SUs. The discussion focused on what staff could do to improve the accuracy of SUs, but given the occasional lack of clarity in many of the directors’ statements, there is much that *executive directors* could do to facilitate the production of clear and accurate SUs.

For example, interviews with staff indicated that there is often a serious time constraint in sifting through dozens of pages of text the night before a Board meeting in an effort to reflect the views of directors in a draft SU. This task has become more difficult since 2000 with the very large increase in the volume of grays, despite calls for shorter statements that highlight key points. Much of the volume comes from a repetition of arguments made in the staff report or from the description of known facts and statistics. Since the convention at the Board is that an executive director’s silence implies support for the position of staff, much of this text is unnecessary for the SU.

While the increase in the use of “grays” has shortened the amount of time spent in the Board, this may have come at a cost. At the APC’s June 2004 discussion of “Voluntary Best Practices for Choice Between Grays and Oral Statements and on the Character of Grays and Oral Statements,”

³⁵The staff paper for the EPA discussion explicitly requested the guidance of Executive directors on at least 11 separate issues; with respect to the discussion of PA, guidance was explicitly sought on only three.

several directors expressed concern with the proliferation of grays, arguing that the purpose of grays “*should be to improve the efficiency and quality of the Board’s work, and not necessarily to reduce time spent in Board sessions.*” The Board’s goal should always be to reach good decisions through an inclusive and fair process, and to allow minority views to be expressed” [emphasis added].³⁶ These concerns appear to have had some validity as the large volume of grays received in the 24 hours prior to the Board meeting has likely had a negative impact on the quality of SUs, which are a critical part of the Board’s decision-making process.

Directors and their staff can facilitate the production of SUs that better reflect their views by making their statements clearer and more focused. Closer adherence to existing Board guidelines on Article IV interventions and grays—including greater reliance on association with the views expressed by other directors—would also help. The deadlines for submitting Buffs and grays should be brought forward to 72 and 48 hours in advance of the Board discussion (respectively).

The definition of individual code words should be made public given that a large percentage of SUs are now published. The frequent use of “several,” which is not defined, should be avoided, or it should be defined, and overlap between “some” and “a few” should be eliminated. The code words could also be recalibrated to reflect the increase in the size of the Board since their adoption.

SUs should be clearer when a position is supported by a sufficient number of directors to represent a “Board” view. When this is the case, the position should be attributed—without qualification—to “the Board,” rather than a sub-group of Directors, while not ignoring the expression of minority views.

Vague language should be avoided unless explicitly warranted by directors’ comments. The starting point for drafting a SU should be the language in the staff report, since this is the document on which directors base their comments at Board meetings. While it is reasonable for staff to attempt to anticipate the range of views that directors might express, this should not manifest itself as a watering down or clouding of language in an attempt to avoid controversy or disagreements among directors.

³⁶“Summary Record of the Agenda and Procedures Committee,” Meeting 04/2, June 15, 2004. Nevertheless, the balance of view among directors at this meeting was that “Grays had become a valuable tool for improving the efficiency of Board meetings, especially when directors wanted their views on record but did not necessarily want to use Board time to express their opinions.”

References

- Gianviti, F., 1999, "Decision Making in the International Monetary Fund," in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).
- Harper, Richard H.R., 1998, *Inside the IMF: An Ethnography of Documents, Technology and Organizational Action* (Cambridge, United Kingdom: Cambridge Academic Press), pp. 255–58.
- International Monetary Fund, 1993, "Executive Board Work Procedures," SM/93/18, January 25 (Washington).
- , 2001, "Guidelines for Efficient and Effective Interventions in Article IV Discussions," January 8 (Washington).
- , 2005, "Compendium of Executive Board Work Procedures," December (Washington).
- Van Houtven, Leo, 2002, "Consensus Decision Making in a Cooperative Institution," in *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*, IMF Pamphlet Series No. 53 (Washington: International Monetary Fund).
- World Bank, 2002, "Board Procedures and Practices," Part A-III of Executive Directors' Handbook (Washington).
- , 2005, "Board Effectiveness: Making Board Decision-Making Processes More Efficient" October 27 (Washington).

9

Financial Oversight of the International Monetary Fund

C. SCOTT CLARK AND JEFF CHELSKY

This paper reviews the IMF's accountability framework for financial audit and control and risk management,¹ including the Board of Governors, Executive Board, the External Audit Committee, the Office of Internal Audit and Inspection, and the Advisory Committee on Risk Management. In light of the increased complexity of the Fund since its creation, a realistic assessment of the extent to which governors can provide effective financial oversight, and the effective evolution of the Executive Board away from a "management" board to a more supervisory one, the paper finds that the structure of financial oversight established in 1946 provides inadequate shareholder oversight and is no longer adequate. The paper presents options

The authors are grateful to Thomas Bernes, Marie Therese Camilleri, Leonardo Martinez-Diaz, Joanne Salop, and Richard Gordon for comments on earlier drafts; to Roxana Pedraglio, Alisa Abrams, and Borislava Mircheva for research assistance; and to Rachel Weaving for editorial assistance. All remaining errors are the responsibility of the authors.

¹For the purposes of this paper, financial audit is defined to encompass responsibility for the integrity of the Fund's financial statements. This responsibility entails, among other things, undertaking an annual review of accounting, financial, and other controls over finance and accounting matters. Financial control refers to internal audit; the responsibility here entails reviewing and evaluating the functions performed by internal audit groups, along with the findings and recommendations of internal audits, and management follow-up. Risk management refers only to operational risk resulting from internal failures or inadequacies.

to strengthen the current framework, including by strengthening the role and capacity of the Executive Board in oversight of financial audit and control.

Accountability Framework for Financial Audit and Control and Risk Management of the IMF

Architecture of Financial Oversight

The Fund's governance framework gives ultimate responsibility and accountability to the Board of Governors, comprised of ministers of finance and central bank governors from all 185 member countries. The Executive Board, whose members are elected or appointed by the members of the Board of Governors, is directly accountable to the Board of Governors. According to the *IMF Articles of Agreement*, “[t]he Executive Board shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all powers delegated to it by the Board of Governors” (Article XII, Section 3(a)).² This would seem to give the Board considerable management responsibilities. However, the Articles also state that “[t]he Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund” (Article XII, Section 4(b)). In other words, Management is accountable to the Executive Board for the operations of the Fund and through the Executive Board to the Board of Governors.

The Fund's main organs of financial oversight and control are (1) the Office of Internal Audit and Inspection (OIA), (2) the Finance Department, (3) the Advisory Committee on Risk Management (ACRM), all of which report directly to Management; (4) the independent audit firm that is selected by the Executive Board but reports to the External Audit Committee (EAC); and (5) the EAC, whose members are selected by the Executive Board, but which reports directly to the Board of Governors. Annex 1 provides details on the mandates and responsibilities of these organs.

Role and Responsibilities of the Board of Governors

According to the By-Laws, Rules and Regulations of the IMF (Section 20(f)), “the audit committee [EAC] shall transmit the report issued by the

²The Articles also state that “[a]ll powers . . . not conferred directly on the Board of Governors, the Executive Board, or the Managing Director shall be vested in the Board of Governors (Article XII, Section 2(a)).

audit firm to the Board of Governors for consideration by it.” An early draft of the IMF By-Laws, Section 20 assigned responsibility for the annual audit of the financial statements to the Executive Board. However, at the inaugural meeting of the IMF in 1946, governors agreed that the Executive Board should not be responsible for the annual financial audit, since the Executive Board was a “management board” and would, therefore, be auditing itself. As a result, at the annual meeting in May 1947, Section 20 of the By-Laws was amended to provide for an independent External Audit Committee (EAC). In effect, the Board of Governors withdrew responsibility for the Fund’s financial audit from the Executive Board.³

A Report on Audit is prepared by the EAC each year and transmitted through the Executive Board and the Managing Director to the Board of Governors. This report is “considered” along with the Fund’s financial statements by the Joint Procedures Committee (JPC) of the Board of Governors of the Fund and the Bank, composed of 24 Governors selected from among the membership, during the Annual Meetings of the IMF and World Bank. A resolution recommending approval of the Report on Audit, which has been proposed by the Executive Board is then forwarded by the JPC to the Board of Governors for its adoption. The resolution stipulates that the Report on Audit (including the Financial Statements) have fulfilled the requirements of Article XII, Section 7 of the Articles of Agreement⁴ and Section 20 of the By-Laws. The JPC typically spends only 10 to 15 minutes per year considering and forwarding resolutions to the Board of Governors on around five separate items.⁵ The Board of Governors of the Fund and the Bank, comprising around 185 members, then adopts the resolution with no discussion. This draws into serious question the extent to which the Board of Governors (or any direct representative of the Fund’s shareholders) provides any effective oversight of IMF audit arrangements. The extent of oversight by Governors or member countries is drawn further into question by the results of a recent IEO survey of member country authorities which indicated that a significant minority of member country authorities are actually unaware of current arrangements (see Box 1).

³Interestingly, the Board of Governors of the World Bank made no similar change to the Bank’s By-Laws. Rather, responsibility for oversight of the Bank’s annual financial audit was given to the Executive Board, a practice which continues to the present. Indeed, this is the arrangement in use in most major international financial institutions (see below).

⁴Article XII, Section 7(a) stipulates that “The Fund shall publish an annual report containing an audited statement of its accounts. . . .”

⁵See the “Schedule of Meetings” in Summary Proceedings, various years.

Box 1. Views of Executive Directors on Financial Management and Fiduciary Oversight

For the purposes of its evaluation of IMF governance, from December 2007 to February 2008, the IEO undertook three separate surveys—of past and present members of the Executive Board, of member country authorities, and of senior IMF staff.¹ A number of the survey questions are of interest from the standpoint of the adequacy of the IMF's system of financial oversight.

The results, which are more fully described in Annex 3, suggest that a majority of members of the Executive Board are not looking for major change in the process through which they exercise financial oversight. However, a significant minority is concerned with the adequacy of Board involvement in financial management oversight and considers the skills of executive directors in this area to be lacking.

The survey of the member country authorities revealed that more than one third of respondents did not know if existing mechanisms for internal financial audit and control were adequate.

¹For a description of the surveys and presentation of main findings, see IEO, *Governance of the IMF: An Evaluation*, Background Document I.

Role and Responsibilities of the Executive Board

According to the Fund's Articles “[t]he Fund shall publish an Annual Report containing an audited statement of its accounts....”⁶ Responsibility for preparing the Annual Report—which contains the financial statements audited by the independent audit firm—remains with the Executive Board. The IMF's General Counsel has presented the following explanation for the current role of the Executive Board in financial audit:

The legal framework for the external audit of the Fund's accounts established by the Fund's Board of Governors in Section 20 of the By-Laws provides for an *important, but limited role for the Executive Board*. On the one hand, the Executive Board is responsible for the selection of the external audit firm, and members of the External Audit Committee, and also approves the terms of reference of the External Audit Committee. On the other hand, *it is the External Audit Committee—not the Executive Board*—that is responsible for the general oversight of the annual audit. Moreover, the External Audit Committee is required to transmit the report issued by the audit firm to the Board of Governors for its consideration. Although the report is transmitted through the

⁶Article XII, Section 7(a)

Managing Director and the Executive Board, neither the *Managing Director* nor the *Executive Board* may amend or suppress it. Finally, although the Managing Director and the Executive Board are given the opportunity to comment on the report, it is the Board of Governors that determines whether the annual audit report is acceptable and should be published. [emphasis added]⁷

According to the Fund's General Counsel, because the Executive Board takes "all key policy and operational decisions that affect the financial position of the Fund," it follows that "if the audit committee were to be comprised of—or under the control of—executive directors, the independence of the assessments would be called into question."⁸ This assertion was, and still is, the basis for assigning the primary role in the Fund's annual financial audit to the External Audit Committee rather than to the Executive Board.⁹ Nevertheless, the Executive Board approves the terms of reference for, and selects the members of, the EAC. It also selects the independent audit firm that audits the Fund's financial statements and, in consultation with the EAC, determines its compensation.

The Board selects the members of the EAC based on the recommendations of an ad hoc Audit Selection Committee (ASC). Despite the Board's long-standing responsibility for selecting members of the EAC, prior to 2004, the majority of ASC members—including the chair (usually the Director of the Finance Department)—were Fund staff. In 2004, in response to the recommendations of a task force comprising executive directors, staff, and management, Management agreed that the ASC would comprise only executive directors, with staff only providing technical and secretarial support.¹⁰ Subsequently the Managing Director, after consulting with the Dean of the Board, invited seven executive directors to be members of the ASC.¹¹ Members of the ASC review résumés and interview EAC candidates.

⁷Note by the General Counsel on "The Role of the Executive Board in the External Audit Process—Legal Aspects," February 16, 2006.

⁸Note by the General Counsel on "The Role of the Executive Board in the External Audit Process—Legal Aspects," p. 3.

⁹At the World Bank, the Executive Board approves all lending operations, and for most of its history formally discussed every operation before approval. Despite this active engagement, the ability of the Bank Board's Audit Committee to provide effective oversight has not been drawn into serious question.

¹⁰"Appointment of Executive Directors to the Audit Selection Committee," EBAP/04/84, July 9, 2004.

¹¹There are no explicit criteria or lists of desirable skills and experience for membership in the EAC (or any other Board committee) nor do members receive training to address any skill deficiency. The implications of this lack for the effectiveness of Executive Board committees are discussed in Chelsky (Chapter 7 in this volume).

Other than selecting the members of the EAC and the external audit firm, the Executive Board's role in financial oversight has largely been to be briefed on, and transmit, the report of the External Audit Committee to the Board of Governors.

Over the last four years, the Board has spent very little time with the EAC discussing financial audit and control and risk management matters (Table 1). Prior to 2005, the Board spent less than two hours a year with the EAC. Starting in 2006, however, Management added a second meeting between the Board and EAC each year, in response to pressure from a number of directors who sought greater involvement for the Board in financial oversight. This increased the total time the Board spent meeting with the EAC to between two and three hours a year. In 2007, the Board spent two hours and seventeen minutes meeting with the EAC. This compares with the approximately 40 hours a year that the EAC spends dealing with IMF financial oversight issues.

Not only have the Board's audit briefings been short, but the meetings have been poorly attended by executive directors. At the last seven meetings, never more than one third of executive directors attended. The worst showing was four of 24 executive directors at both the second meeting of 2006 and first meeting of 2007. Alternate executive directors, and more frequently, advisors or senior advisors, have tended to substitute for executive directors. Executive directors representing the six largest shareholders have rarely attended.

Interviews for this paper suggested a number of possible explanations for the poor attendance and apparent lack of interest in financial oversight on the part of executive directors. Foremost is that many directors do not consider financial oversight to be their responsibility; it is the responsibility of the EAC. Other possible explanations include: lack of financial knowledge on the part of many executive directors; faith in the EAC whose members are seen as experts in audit matters; a feeling that meetings with the EAC are a "waste of time" because the information provided by the EAC to directors is inadequate; and finally, a belief among a number of directors that Management does not want them to become involved in financial oversight.

Until quite recently, the Board had little direct involvement in, or oversight of, internal audit. It did not automatically receive reports by the OIA (which is directly accountable only to Management), nor did it receive information on the OIA work program. Further, the Board did not meet with the Director of OIA to discuss issues of concern to the Board. In fact, between 2000 and 2006, only eight reports from the OIA were shared with the Board. This has changed somewhat since 2006, when Management agreed that the Director of OIA would brief the Board annually on OIA activities and emerging issues.

Table 1. Briefings of Executive Board by External Audit Committee: Duration and Attendance

| Date | Duration (Hr/min) | Executive Directors | Alternate Executive Directors | Temporary Alternate Executive Directors | Major-Shareholder Executive Directors ¹ |
|----------|-------------------|---------------------|-------------------------------|---|--|
| 01/16/04 | 1/15 | 8 | 7 | 9 | 1 |
| 01/14/05 | 1/30 | 8 | 7 | 9 | 1 |
| 06/22/05 | 1/40 | 7 | 8 | 9 | 2 |
| 01/13/06 | 1/52 | 8 | 9 | 7 | 3 |
| 07/07/06 | 0/55 | 4 | 6 | 14 | 2 |
| 01/12/07 | 1/12 | 4 | 9 | 11 | 2 |
| 07/09/07 | 1/05 | 6 | 5 | 13 | 1 |

Source: Minutes of IMF Executive Board meetings.

¹Executive directors from the six largest shareholders.

The lack of involvement by the Executive Board in financial oversight led some executive directors to express concern that the Fund was not following the practice used in other multilateral financial institutions.¹² They noted that most other international financial institutions have active Board audit committees and argued that the Fund should adopt a similar approach. In response, the EAC in 2006 prepared an extensive review of what constituted “audit committee best global practices.”¹³ The Committee noted that “[t]he common theme that can be found in all the legislation that gives guidance on audit committee best practice is the requirement for the independence of its officers.”¹⁴

The Committee’s opinion echoed the view, expressed in July 2005 in an “issues note” prepared by Fund staff for an informal Board seminar, that “[t]he involvement of the Executive Board in all Fund decisions, financial as well as operational, creates a conflict of interest with the ex-post oversight role of audit committees.”¹⁵ The note went on to state that “any dilution of the EAC’s existing oversight role over audit matters

¹²Such views were frequently expressed during the annual briefings of the Board by the EAC. See Annex 2 for a description of some of these arrangements.

¹³“External Audit Committee (EAC)—Communication from the EAC on Audit Committee Best Practices,” February 16, 2006.

¹⁴“Memorandum of External Audit Committee Arrangements,” February 13, 2006, p. 1.

¹⁵“The Fund’s Audit Arrangements—Issues Note,” SM/05/290, p. 5. Regrettably, staff did not propose the publication of this note. This is disappointing from the standpoint

would be considered a step backwards in terms of evolving audit best practices.”¹⁶ The view of Fund staff was (and according to interviews conducted for this paper, still is) that executive directors “exercise their duty of due diligence by selecting the members of the EAC and selecting the Fund’s independent audit firm. The EAC, in turn, provides executive directors with its independent assessment of the adequacy of the Fund’s audit process which directors require for an informed judgment.”¹⁷ When asked during interviews for this paper to comment on the appropriateness of a Board Audit Committee overseeing financial audit and control at the World Bank, Fund staff argued that the World Bank is different from the Fund and therefore warrants a different oversight model. However, prior to the 1990s, every single Bank lending operation was discussed by the Executive Board, which suggests that—at least in terms of independence—the Fund and Bank Boards are not so different.¹⁸ That there has been no serious challenge to the appropriateness of the World Bank Board providing oversight through a Board Audit Committee suggests that the concerns of IMF staff with Board independence is probably overstated.

The Secretary’s Department arranged to have the July 2005 “issues note” discussed in an informal Board seminar, rather than a formal Board meeting, in September 2005.¹⁹ The use of this informal setting to discuss an important internal governance issue like the audit framework was unfortunate, because it meant that executive directors could not formally record their views on the adequacy of the financial oversight of the Fund nor were any summary or concluding remarks prepared by the chairman at the end of the seminar to transparently summarize the “sense of the meeting.”²⁰

Despite the lack of a formal record from the September 2005 Board seminar discussion, Fund Management concluded, in December 2005,

of transparency and accountability, given that the note clearly articulates the prevailing framework for fiduciary oversight of the IMF and does not contain any confidential or classified information.

¹⁶SM/05/290, p. 6.

¹⁷SM/05/290, p. 7.

¹⁸Even today, all loans are approved by the Executive Board, although a number are processed under “streamlined procedures,” which means that the Board does not discuss them unless an Executive Director so requests.

¹⁹In 2004, another staff paper on the Fund’s external audit arrangements was also scheduled for discussion by the Board at an “informal seminar,” but that seminar was never held.

²⁰While transcripts of informal seminars might be produced, these are generally destroyed after one to two years. Individual departments may produce internal memoranda to files describing their views on the outcome of a meeting, but these memoranda are not available to the executive directors or member country authorities and are not a formal record.

that “executive directors [during the September 2005 discussion] generally recognize[d] that the Fund’s audit oversight function should remain independent from management and the Executive Board.”²¹ However, interviews undertaken in late 2007 and early 2008 for this paper revealed that a number of executive directors did not agree that the extent of their involvement in the “day to-day” operations of the Fund prevented them from providing independent financial oversight.

When it comes to audit matters, the view of Fund management has been that the Executive Board should adopt the best practice emerging for public companies (even though the IMF is not a public company and has few, if any, characteristics of a public company). The Board, for its part, remains divided on the best way forward, with a significant minority continuing to favor the establishment of a Board standing committee on audit, similar to that used in other major multilateral financial institutions. (See Annex 2 for a comparison of financial oversight arrangements in major multilateral financial institutions.)

Role and Responsibilities of the External Audit Committee

The External Audit Committee (EAC) is composed of three experts “selected” by the Executive Board on the recommendation of an ad hoc committee of executive directors (ASC), and appointed by the Managing Director for staggered, renewable terms of three years. EAC members must be nationals of different member countries and one member must be from one of the largest six shareholders.²²

Changes introduced as a result of the Board’s 1999 review broadened the purview of the Committee to include internal audit and risk management. The amended terms of reference expanded the responsibilities of the EAC to include: (1) risk management within the IMF and the system of internal controls, including the environment in which the system operates; (2) approval of the charter of the Office of Internal Audit; and (3) review of the OIA’s plans, the results and quality of its audits, and its adherence to standards of internal auditing.²³ The new terms of reference

²¹“Memorandum from the Managing Director to Members of the Executive Board on Control- and Audit-Related Matters—Information Sharing with the Executive Board.” December 16, 2005, p. 1.

²²See Section 20 of the By-Laws, Rules and Regulations of the International Monetary Fund, Sixtieth Issue, May 2006.

²³“External Audit Committee Terms of Reference,” Sections 2.6–2.8, EBS/99/137, July 23, 1999.

also transferred the responsibility for signing the audit opinion to the independent audit firm from the EAC, which had been responsible up until then. This made it possible for the EAC to “act more like a typical board audit committee in other large institutions.”²⁴ There have been no reviews by the Board of the terms of reference for the EAC since 1999.

In 2004, given the increased scope and complexity of the EAC’s work relative to its earlier mandate, Fund Management recommended an increase in the number of EAC members to four and an increase in their term of service to four years.²⁵ But a Board discussion of the staff paper containing this proposal was never scheduled and the recommendation was therefore not approved. Subsequently, responding to an IEO questionnaire on audit arrangements in October 2007, the Chairman of the EAC argued that “. . . given the limited contact the EAC members have with the Fund and the need to build up a good level of expertise and understanding of the Fund, to get the most value from an EAC member’s contribution, a better alternative (to increasing committee size) would be to reappoint members for a second period of three years.” They also agreed that a single three-year term was too short and weakened continuity and EAC capacity, and recommended that the term be increased to five or six years.

Until 2006, the EAC was required to meet with the Executive Board only once a year. In 2006, as noted above (and further below), the frequency was raised to twice yearly.

Fund staff attempt to keep the EAC up-to-date on issues during the year through video conferencing, supported by timely briefing material on issues, problems, and developments in the Fund. Members of the EAC have expressed the view that the staff have provided them with informative briefings on the issues and problems in the Fund. According to IMF staff, the twice-yearly meetings of the EAC with Fund staff in Washington amount to about 40 hours, which is roughly equal to the practice at those publicly-traded companies that have the highest frequency and duration of audit committee meetings.²⁶

Role and Responsibilities of the Advisory Committee on Risk Management

The main types of risks faced in the Fund’s business are outlined in Box 2. In its June 2004 report, the EAC concluded that:

²⁴“Review of the Fund’s External Audit Function,” EBS/99/23, May 1, 1999. Attachment, p. 2.

²⁵EBS/04/71.

²⁶EBS/04/71, p. 13.

Box 2. Definitions of Key Risks

The 2005 IMF Task Force on Risk Management identified four types of risk that an institution like the IMF might face:

- Strategic risks are those that arise in the definition and implementation of the Fund's medium- and long-term objectives.
- Core mission risks are those adverse events that may prevent the Fund from realizing its core mission objectives, including contributing to macroeconomic and financial stability, promoting international macroeconomic cooperation, and providing capacity-building services.
- Financial risks are those that impact the Fund's financial position. As a financial institution, the Fund faces the traditional types of financial risks (interest rate risk, exchange rate risk, liquidity risk, income risk, and credit risk).
- Operational risks are those that arise in the day-to-day conduct of business and materialize because of external events or weaknesses in processes, people, or systems that underpin the delivery of an organization's outputs.

Source: "Report of the Task Force on Risk Management," EBS/06/4, January 9, 2006.

Sophisticated financial institutions globally are embracing a self-assessment of risk identification and risk management processes on an enterprise-wide basis. We recommend that the IMF consider such an assessment to determine what sort of framework can make its existing processes best coordinated and most effective and improve further knowledge and monitoring of risks faced by the Fund.²⁷

In response, the Managing Director established a Task Force on Risk Management in June 2005. The report of the Task Force was submitted to the Executive Board for discussion in February 2006.²⁸ It recommended that "[a]n Advisory Committee on Risk Management [ACRM] should be established to assist Fund Management in analyzing and synthesizing operational risks, formulating mitigation measures, as needed, and reporting to the Board" and noted that the ACRM would prepare "a brief summary that would facilitate conduct by the Executive Board of its due diligence

²⁷"Report of the External Audit Committee to the Executive Board," EBAP/04/71, June 16, 2004.

²⁸"Report of the Task Force on Risk Management," EBS/06/4, January 9, 2006. The Task Force proposed a risk framework made up of four main risk elements: strategic risks, core mission risk, financial risk, and operational risk. As noted above, the present review is concerned with operational risks only, including reputation risk, resulting from internal failures or inadequacies or from external events.

function.”²⁹ A footnote stated that the report would be given to the Board during an informal meeting on control-related matters.

Discussing this report, the Executive Board expressed strong support for the work of the new Task Force and the need to put in place a more effective system to manage risk. Directors also raised questions “regarding the effectiveness, organization, scope, and lines of reporting for the Advisory Committee on Risk Management that was proposed by the Task Force.” In particular, they expressed strong agreement “that the Board should be appropriately involved in the process of risk management . . .” and noted a need “to further discuss how this can be done in the most efficient way, including as one possible option, through establishment of a Board committee.”³⁰

A few months later, in June 2006, the Task Force on Risk Management presented a second report to the Board that focused on “specific modalities of implementation, the scope of risk management, and the governance structure supporting the framework.”³¹ That report concluded (page 5) that the “role of the Board would be to ensure that the Fund has in place an adequate risk management framework and to review annually management’s assessments and proposals,” and that although the exact nature of Board involvement would have to be discussed by the Board, based on management’s recommendations, it would be important to consider “fully how best to exploit the synergies with the External Audit Committee,” to which the Board had given responsibility for risk management. The ACRM was required to report to Management on the outcome of annual risk assessments. Management’s responsibility would be to provide reasonable assurance to the Board that risks were being adequately monitored and mitigated.³²

However, directors were not prepared to accept the same limited role for risk management that the Board had been assigned for financial audit, and in December 2006 they called “for an enhanced role of the Board in the risk management process, including with respect to timing, frequency, and process of interactions among the ACRM, management, and the Board.”³³

In response to this demand for greater involvement in monitoring risk management, the staff provided the Board with three options: to meet in formal session to discuss the first annual risk assessment; to meet informally

²⁹“Report of the Task Force on Risk Management,” p. 22.

³⁰“The Acting Chair’s Summing Up: Report of the Task Force on Risk Management,” Executive Board Meeting 06/9, February 1, 2006. BUFF/06/24, February 6, 2006.

³¹“Second Report of the Task Force on Risk Management—Task Force Proposals on the Implementation of a Risk Management Framework at the Fund,” EBS/06/74, June 2, 2006.

³²This would include systemic risks, core risks, financial risks, and operational risks.

³³“Risk Management—Further Considerations,” SM/06/386, December 4, 2006.

to discuss the first annual assessment, and then decide to have a formal meeting if necessary; or to establish a Board Committee on risk management, to be chaired by management, along the lines of the Budget Committee.

A decision has not yet been made on any greater involvement of the Board in risk management. Most recently, in January 2008, a Working Group of Executive Directors on Executive Board Committees decided, with respect to establishing a risk management committee, to “await report on our experience with the existing risk management framework, and the report of the IEO on Fund Governance.”³⁴

Recent Measures to Enhance the Role of the Executive Board in Financial Audit and Control

In December 2005, Fund Management responded to the concerns of those executive directors who had “expressed a need for additional information on a regular basis for their due diligence responsibilities, such as status reports on OIA’s work.”³⁵ At that time, as noted above, the EAC was meeting with the Board only once a year. Its reports to the Board often contained little information and on many occasions they were not distributed to the Board before the meeting. In the case of internal audit, the OIA was not required to (nor did it, routinely) brief the Board on its activities. It reported only to the EAC, which then included a brief summary of OIA activities in its report to the Board.

Management proposed that the EAC would brief the Board twice a year (in January and June) at meetings in which members of the EAC and the external audit firm would respond to Board members’ questions. The Board would receive audited financial statements, audit reports, and a briefing by the EAC on the conduct of the audit by the external audit firm. Also, if the external audit firm issued management letters on the audit, these would be provided to the Executive Board. The EAC “would endeavor” to circulate its statement on the year-end audit in advance of the June meeting.³⁶ At its twice-a-year briefings by the EAC, the Board would also receive a report on internal audit activity, which would include, among other things, information on the implementation of the OIA work program. As well, the internal

³⁴“Structure and Mandates of Executive Board Committees,” EBD/08/10, January 24, 2008.

³⁵“Memorandum from the Managing Director to Members of the Executive Board on Control- and Audit-Related Matters—Information Sharing with the Executive Board,” December 16, 2005, p. 1.

³⁶It is not clear why this change needed to be initiated by Management. Considerations of independence that led to limits on the Board’s role in external audit oversight apply equally (if not more so) to Management. The Board should therefore be able to determine the frequency with which it receives briefings from the EAC.

audit plan for the current year would be circulated for information. The report would include the main findings and issues emerging from OIA projects and the responses planned by affected departments. The Board would also be briefed on emerging topics of interest.

At the time these proposals were made, the Legal Department cautioned that increases in the flow of information from the EAC to the Board would be consistent with the existing legal framework “[p]rovided that this enhanced flow of information is not designed to give the Executive Board an oversight role in the annual external audit of the Fund’s accounts.”³⁷

The EAC itself recognized the need to improve its relationship with the Board. And in a recent letter to members of the Executive Board proposing a meeting in January 2008, the EAC observed that:

As the members of the EAC are not ourselves Board members, we have very limited opportunity to be as well informed as it should be about the concerns of the Executive Board members with respect to the matters covered by our terms of reference. In order to reduce to some extent this disadvantage, it is proposed that the EAC meet informally with Executive Board members. . . . We believe that the EAC would be more productive and effective by having these informal meetings.³⁸

Consequently, prior to the January 2008 meeting of the EAC with the Executive Board, members of the EAC met informally with three separate groups of executive directors to discuss the directors’ issues and concerns.

Is the Current Framework Adequate?

Despite recent enhancements, the Executive Board of the IMF exercises minimal oversight of Management on issues related to financial audit and control and risk management. This has been the case since 1947, when the Board of Governors assigned responsibility for financial audit to an independent External Audit Committee which reports to the Board of Governors through the Executive Board. The role of the EAC was broadened in 1999 to give it a mandate over internal audit and risk management.

Several factors have reinforced the marginalization of the Executive Board. First, Management and the EAC have argued that the Fund should follow the best practice of public corporations with regard to audit committees. This

³⁷“Role of the Executive Board in the External Audit Process—Legal Aspects,” FO/015/06/15, p. 5.

³⁸Letter to Members of the Executive Board from the EAC, October 26, 2007.

requires that audit committee members be independent of operations in order to avoid conflicts of interest. By this criterion, it was argued that executive directors in the Fund could not be considered fully independent, since the Board acted as a management committee in approving all Fund decisions. Management and senior staff have taken the view that the current system allows the Board to meet its fiduciary responsibility for financial oversight.

Second, there has been, and continues to be, an unfortunate tendency on the part of staff and Management to downplay executive directors' concerns about the adequacy of the financial oversight framework. This can be seen in the results of the recent IEO survey of senior Fund staff, which showed that one quarter of respondents with knowledge of the oversight framework considered that the Executive Board was excessively involved in financial management and other fiduciary oversight (Annex 3). This may explain why discussion of the oversight framework has taken place largely in informal board seminars that do not entail formal minute keeping.³⁹

Third, for the majority of executive directors, financial oversight has not been, and is still not, a priority. The recent IEO survey of the Executive Board referred to above indicated that the majority of respondents were satisfied with the extent of their involvement (Box 1). At the same time, a significant minority of executive directors have argued that internal control mechanisms need to be strengthened. An exception to the general lack of interest displayed by the majority of board members is with respect to oversight over Management, where almost all respondents indicated that the Executive Board should exercise greater oversight. That this has not been achieved to any measurable degree may be related to another finding of the IEO survey—that many Executive Board members (67 percent of those from low-income countries and 48 from middle-income countries) fear negative repercussions if they criticize the views of IMF Management.

The justification for the current arrangement whereby the Board has no direct role in financial oversight has, from the outset, been based on the presumption that the Board functions as a “management board” and is therefore not sufficiently independent to carry out credible financial oversight. It was for this reason that the decision was taken to have the EAC report to

³⁹According to the Secretary's Department, “informal seminars are designed for a discussion of a subject at a preparatory stage. Possible motivations for scheduling an informal seminar may include the staff's desire to brief Executive Directors informally on the development of a policy direction or analytical framework at an early stage, and/or to provide an opportunity for Executive Directors to give preliminary and informal views, input, or guidance on possible alternative approaches to an issue under consideration.” Several Directors have expressed the view that the informal seminar framework was not appropriate for Board discussions of the adequacy of the framework for financial oversight.

the Board of Governors. But today's Executive Board acts significantly more like a supervisory board than did the Board in the early days of the Fund. Back then, executive directors were much more closely engaged in daily operations of the Fund, even to the extent of leading Fund missions. This is no longer the case and, while the Board still takes all "decisions" on every instance of the use of Fund resources by member countries as well as on the completion of all Article IV consultations, it has increasingly taken on "supervisory" functions.⁴⁰ Further, the issue of Board independence has not arisen as a problem in any of the other multilateral financial institutions.

Concerns with the Board's ability to undertake fully independent oversight need to be weighed against the inadequacy of the existing arrangement. While the Board of Governors is technically responsible for oversight, in practice it spends, and will continue to spend, virtually no time on this function. In fact, there is survey evidence that many Governors are unaware of their responsibilities in this area. It is probably not realistic to expect ministers and central bank governors to be as engaged on IMF issues as they were when the Fund was first created. As such, a significant gap has opened up in the Fund's accountability framework that needs to be addressed.

How can the gap be addressed in a credible and cost-effective manner? As the comparator analysis in Annex 2 shows, the big-five multilateral development banks (MDBs) all have audit committees composed of executive directors and chaired by an executive director, thus giving executive directors in those institutions greater responsibility and significantly more active roles in financial oversight, including for internal audit and operational risk management, than is the case with their IMF counterparts. Of course, there are differences between the IMF and the MDBs, but there are also many similarities, including with respect to the independence of the respective boards.

The fact that no major financial problems have come to light is obviously not an adequate defense of the status quo in which shareholders provide little or no oversight of financial audit and control. One has to be concerned about the ability of the EAC to fully appreciate the financial problems of the Fund on the basis of only twice-yearly meetings in Washington. Further, in the view of both EAC members and Fund staff, the size of the EAC is too small, and the term of its members is too short, to maintain continuity and consistency.

Recent efforts to improve the flow of information to the Executive Board from the EAC and to provide an annual briefing to the Board by the OIA are important steps in the right direction. But more should be done.

⁴⁰See IEO, *Governance of the IMF: An Evaluation*, May 2008.

Concluding Remarks

The structure of financial oversight established in 1946 is no longer adequate given the increased complexity of the Fund and a realistic assessment of the extent to which Governors can provide effective financial oversight.

Regardless of the audit model chosen, an improvement in financial oversight, and greater accountability to the membership, will not be achieved without changes in the attitudes and practices of the Executive Board and Management. Executive Board members must become more knowledgeable of the issues involved and more active in fulfilling their fiduciary duties. For its part, Management and staff must become more transparent and open towards the Board and supportive of legitimate claims of executive directors to protect the interests of the members that elected or appointed them.

Within the existing audit model, the efforts that have been made to improve the amount, frequency, and quality of information provided to the Board are much-needed steps in the right direction. But more needs to be done to bring the Fund up to the level of oversight it needs and that is practiced at other major international financial institutions.

In particular, consideration should be given to establishing a Board audit committee that would be chaired by an executive director (not management) and have responsibility for financial audit and control and risk management.⁴¹ Should this approach be taken, it would be beneficial to maintain the EAC, if not as full members of a Board audit committee (which is permissible within the Fund's legal framework⁴²), then at least in an advisory capacity to such a committee.

Annex 1. The Main IMF Bodies with Audit Responsibilities

External Audit Committee

1. Purpose

The EAC has general oversight responsibilities for the external audit function within the IMF. The EAC shall review the financial statements

⁴¹See Chelsky (Chapter 7 in this volume) for shortcomings in the operation of other IMF Board committees. Also, in the recent IEO survey of current and former members of the Executive Board, only one quarter of respondents considered Board committees to be effective. Almost two thirds answered that, in order to be effective, committees would "require significant change in their structure and operations."

⁴²Article XII, Section 2(j) of the IMF's Articles of Agreement states that "Membership of committees need not be limited to Governors or Executive Directors or their Alternates."

of the IMF and the accounts administered by the IMF, including the staff retirement plans, the related financial reporting practices, and the system of internal controls, including the audit process. The responsibility for performing the external audit and issuing the audit opinion rests with the external audit firm. The EAC shall transmit the external audit reports issued by the external audit firm to the Board of Governors, through the Managing Director and the Executive Board.

2. Responsibilities

2.1 Review the interim and annual financial statements of the IMF and the accounts administered by the IMF, including the staff retirement plans, the external audit firm's opinion, and its comments on controls and other observations. The EAC shall also review the underlying accounting principles with staff of the IMF and the external audit firm.

2.3 Review and discuss with the external audit firm and staff of the IMF the scope and content of the external audit firm's examination, and the coordination with the Office of Internal Audit and Inspection. For this purpose, the EAC shall receive a written submission of the external audit firm's audit plan.

2.6 Review with the external audit firm, the Office of Internal Audit and Inspection, and staff of the Treasurer's Department, risk management within the IMF and the system of internal controls, including the environment in which the system operates.

2.9 The EAC shall submit minutes of its formal meetings to the Executive Board, but need not prepare separate formal reports on its activities. Its Chairman shall brief the Executive Board on the work of the EAC at the conclusion of the annual audit.

Office of Internal Audit and Inspection⁴³

The mission of the Office of Internal Audit and Inspection (OIA) is to:

2.01 provide independent and objective examinations and reviews of the effectiveness of the risk management, control, and governance processes of the Fund, and present analyses and advice to Fund management and staff for improvement, guided by professional standards;

2.02 provide advisory services for business processes and work practices to help ensure that they are structured and conducted in a manner that enables the Fund to fulfill its objectives effectively and efficiently;

⁴³Terms of Reference provided in IMF General Administrative Order No. 14, Rev. 4, November 6, 2006. In addition, OIA also functions as the Secretariat for the Advisory Committee on Risk Management (ACRM).

2.03 conduct, or assist in conducting, internal investigations requested by the Managing Director;⁴⁴

2.04 assist the external audit process and support the activities of the External Audit Committee.

4.01 The Office of Internal Audit and Inspection is authorized to conduct financial, operational, and systems audits; carry out organizational reviews; support the External Audit process; and perform internal investigations at the request of the Managing Director.

IMF Ad Hoc Audit Selection Committee⁴⁵

To assist the Executive Board in the selection process, an Audit Selection Committee (ASC), consisting of executive directors and senior staff, is appointed to identify suitable candidates for the EAC and for evaluating proposals from external audit firms bidding for the IMF's external audit contract. Following the evaluation process, the Committee submits its recommendations to the Executive Board. The Executive Board selects the external audit firm and the three members of the EAC, prior to their appointment by the Managing Director. The external audit firm is to be selected in consultation with the EAC.

Advisory Committee on Risk Management⁴⁶

The initial terms of reference proposed for the Advisory Committee on Risk Management (ACRM) by the Task Force on Risk Management included identification of the key categories of the risks, evaluation of the applicability of the experience of other institutions, and for recommendations for possible modalities to carry out risk management.

Subsequently, the Task Force proposed that the Advisory Committee on Risk Management could be the mechanism to address an in-depth examination of financial risks, and it was noted that this assessment already takes place as part of the annual financial reporting process that requires the Fund to assess and report financial risks as disclosures in the notes to the annual financial statements.

The Task Force's recommendations included that all departments undertake an annual assessment of, and report to the ACRM and

⁴⁴Or a Deputy Managing Director, when delegated by the Managing Director. This authority applies to references to the Managing Director throughout this document.

⁴⁵EBAP/99/102, Sup. 1, August 27, 1999.

⁴⁶EBS/06/4, March 17, 2006; EBS/06/74, June 2, 2006.

management on, their residual operational and, where relevant, core mission risks; and that the ACRM, assisted by the OIA secretariat, present for Management consideration an Annual Risk Assessment report, including an assessment of key strategic, core mission, financial, and operational risks and proposed mitigation measures. Based on this Annual Risk Assessment report, Management should provide its assessment and propose mitigation measures for the Board's discussion and review.

Joint Procedures Committee of the Board of Governors of the Bank and the Fund (JPC)⁴⁷

. . . The Committee was established as a useful instrument available to the Chairman of the Boards of Governors in handling any problems or issues that may arise prior to and during the Annual Meetings. Members of the JPC serve for one year beginning at the close of one Annual Meetings to the close of the following Annual Meetings. . . .

The Committee is currently composed of 23 members. . . . An effort is made to ensure that members represented in the JPC command at least 50 percent of the voting power in the Bank and in the Fund.

. . . The Committee normally meets once during the Annual Meetings to deal with the items of business to be reported to the Boards of Governors. It may meet more often if additional matters arise on which the Chairman wishes to consult it. The Chairman can convene the JPC at any time to make recommendations on any subject relevant to the organizations. . . .

Annex 2. Financial Oversight in Major Multilateral Financial Institutions

There is broad similarity in the responsibilities of the audit committees in all the seven major multilateral financial institutions (see Table 2). All the audit committees are responsible for the integrity of their institutions' financial statements. This requires among other things an annual review of the accounting, financial, and other internal controls that have been established regarding finance and accounting matters, including the resolution of any identified material weaknesses.

In all seven institutions, the independent auditor reports to the audit committee, which is responsible for ensuring the auditor's independence,

⁴⁷FO/Dis/04/112, September 16, 2004; FO/Dis/07/131, October 12, 2007.

Table 2. Audit Committees in Major International Financial Institutions

| | IMF | WB | EBRD | AsDB | AfDB | IADB | EIB |
|-------------------------------------|---------|--------|----------|----------|----------|------|------------------|
| Committee of Board members | No | Yes | Yes | Yes | Yes | Yes | No |
| Appointed by Board | Yes | Yes | Yes | No | Yes | Yes | No |
| Report to Board | No | Yes | Yes | Yes | Yes | Yes | No |
| Size of committee | 3 | 8 | Min. 6 | 6 | 6 | 8 | 6 |
| Term (years) | 3 | 2 | 1 | 2 | n/a | 2 | 3 |
| Frequency of meetings (2006) | 2 times | weekly | 16 times | 12 times | 12 times | N/A | At least 10 days |
| Responsible for: | | | | | | | |
| • Integrity of financial statements | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| • External auditor | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| • Internal audit | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| • Risk management | Yes | Yes | Yes | Yes | Yes | Yes | Yes |
| • Evaluation | No | No | Yes | No | No | No | No |
| • Fraud and corruption | No | Yes | Yes | Yes | No | Yes | Yes |

Note: EBRD: European Bank for Reconstruction and Development; AsDB: Asian Development Bank; AfDB: African Development Bank; IADB: Inter-American Development Bank; EIB: European Investment Bank; and WB: World Bank.

qualifications, and performance. With respect to the appointment of independent auditors, the audit committees all play a key advisory role to their executive boards. In the IMF, the Executive Board in consultation with the External Audit Committee is responsible for selecting and compensating the independent auditor. In the EBRD, the President recommends the appointment and compensation of the independent auditor, but the Audit Committee can make recommendations to the Board before a decision is made. In the World Bank, the Audit Committee recommends to the Board the appointment, compensation, and removal of the independent auditor. A similar approach is followed at the AsDB and AfDB. In the EIB, the Audit Committee designates the independent auditor after consultation with the management committee.

The responsibilities of the audit committees are also quite similar with respect to internal audit. They include reviewing and evaluating the functions performed by the internal audit groups, including findings, recommendations, and management follow-up. There is, however, a significant difference in the roles played by audit committees in the appointment and dismissal of the head of internal audit. In the IMF, these functions rest entirely with management, whereas in the other institutions the audit committees play an advisory and consultative role in both functions.

In all seven institutions, though in some more than others, audit committees have an oversight role with respect to risk management. The External Audit Committee in the IMF seems to exercise relatively less oversight, but this may reflect the fact that, unlike the other institutions, the Fund does not have a treasury function.

The EBRD is the only one of these institutions in which the evaluation function reports directly to the audit committee. The other institutions have all assigned an independent role to evaluation, though they follow different processes for the evaluation function. For detecting fraud and corruption, only the External Audit Committee in the IMF has no responsibility.

The process for selecting audit committee members varies slightly among the institutions. In the IMF, the Executive Board selects the External Audit Committee members, who are then appointed by the Managing Director. In the EBRD, the WB, and the IADB, the committee members, and committee chairs and vice chairs, are elected by the executive boards. In the AsDB, the President appoints the audit committee, after consultation with the Executive Board. In the EIB, the Board of Governors appoints the audit committee.

Financial and accounting knowledge is a requirement for audit committee members to varying degrees. The IMF requires that all its EAC members meet rigorous professional standards, while the EBRD has no such requirements at all. In the WB Audit Committee, members are required

to have a working knowledge of finance and accounting practices, whereas in the AsDB's committee, only one member must have a background in financial and accounting practices. All the committees have the option of hiring independent expert advice if necessary.

The IMF is the only institution in which audit committee members are not members of the Executive Board, out of concern that Directors may be involved in financial decisions as is the case in most executive boards.

The other institutions have not ignored the issue of the independence of audit committee members. For example, the terms of reference of the World Bank's Audit Committee address this issue by requiring that "Audit Committee members . . . shall be free from any relationship that, in the opinion of the Board would, interfere with the exercise of their independent judgment as a member of the Audit Committee." A similar approach has been adopted by the ASDB, where the terms of reference state that "The Committee members shall inform the President of any circumstances which reasonably may be perceived to interfere with the exercise of their independent judgment as members of the Committee." The terms of reference for the EBRD Audit Committee do not contain such a requirement. The institutions other than the IMF appear to accept that executive directors will respect, and strictly adhere to, the codes of conduct of their institutions. There is no evidence that they have not done so or that the reputations of these institutions have suffered.

Except at the IMF and EIB, the full executive boards must approve all recommendations of their audit committees. In the IMF, other than in the appointment of the EAC and the independent audit firm, Executive Board approval is not required.

Annex 3. Views of the Board, Member Country Authorities, and Senior IMF Staff on Financial Management and Fiduciary Oversight

Between December 2007 and February 2008, IEO undertook three separate surveys of IMF member country authorities, current and former members of the IMF Executive Board, and senior IMF staff as part of its evaluation of IMF governance. A number of the survey questions addressed issues of financial oversight and provide important insights into the adequacy of current arrangements. The response rates for the surveys of member country authorities, members of the Executive Board,

and senior staff were 50, 54, and 44 percent, respectively, with at least one response received from 64 percent of IMF member countries.

Board Involvement in Financial Management Oversight

Just over half of authorities do not consider competence with financial management oversight to be an essential qualification for executive directors.

- Forty-three percent of the respondents from among member country authorities considered facility in financial management oversight to be “essential” for an IMF executive director. Fifty-three percent considered such facility “useful, but not essential.”

Board members are split on the adequacy of their involvement with financial management oversight.

- Thirty-seven percent of the Board member respondents considered the Board to be “insufficiently involved” in financial management and other fiduciary oversight; however, 51 percent considered the Board’s involvement to be “adequate.” In contrast, 81 percent of staff respondents with knowledge of the Board’s involvement in this area considered the Board to be either “adequately” or “excessively” involved.

A significant minority of Board members and a majority of staff consider Board skills and experience with financial management oversight to be “weak.”

- Just over one half of Board member respondents considered their skills and experience in this area to be “adequate.” Thirty-seven percent described them as “weak.” In contrast, only 32 percent of the senior IMF staff respondents considered Board skills and experience in this area to be adequate; 51 percent described them as “weak.”

A majority of Board respondents considered the Board to add positive, albeit modest, value in the area of financial management oversight.

- Seventy-three percent of the Executive Board respondents and 45 percent of senior staff respondents considered that the Board has “positive” value added in financial management and other fiduciary oversight. However, around three quarters of each set of respondents considered that value added to be “modest.” One quarter of the Board respondents and 35 percent of the senior staff respondents saw no, or negative, value added from the Board in this area.

Accountability Mechanisms

Only a minority of Board and authorities consider existing system of oversight of financial audit, control, and risk management and internal financial audit and control to be adequate.

- Only 48 percent of Board respondents and 32 percent of the member country authority respondents considered existing arrangements and practices for internal financial audit and control to be adequate to ensure the IMF's fiduciary health. Fifty-five percent of the Board respondents and 39 percent of the member country authority respondents believed that the Board should exercise greater oversight of financial audit, control and risk management. One-third of the respondents from member country authorities did not know if current arrangements and practices were adequate.
- Forty-four percent of the Board and 35 percent of the member country authority respondents believed that mechanisms were either non-existent or needed to be strengthened. Just over one-third of the respondents from member country authorities did not know if current mechanisms were adequate.

A majority of low- and middle-income countries fear repercussions from criticizing the views of IMF staff or management.

- Around one-third of respondents from the Board and member country authorities were concerned with the repercussions of criticizing the views of staff or management on at least some issues. Concern was greatest among authorities from low-income countries (56 percent), recent borrowers (47 percent), and countries in the Asia-Pacific and Central Asian region (53 percent).

References

- Business Roundtable: An Association of Chief Executive Officers Committed to Improving Public Policy, 2002, "Principles of Corporate Governance," May.
- Independent Evaluation Office (IEO), *Governance of the IMF: An Evaluation* (Washington: International Monetary Fund).
- Organization for Economic Cooperation and Development (OECD), 2004, *OECD Principles of Corporate Governance* (Paris).

10

Managing Conflicts of Interest and Other Ethics Issues at the IMF

KATRINA CAMPBELL

This study examines the IMF's structures, policies, and practices at the Executive Board and Management level as they relate to managing conflicts of interest, abuses of power, and other ethics issues. It also reviews the corporate governance policies of comparable organizations, as well as industry best-practice guidelines, to compare and benchmark IMF practices and highlight issues for the Fund to address. It finds that the Fund's governance system—structures, policies, and practices—is not well designed to identify actual and potential conflicts of interest and ethical problems of executive directors or the Managing Director. Thus the Fund should consider how to update its governance processes and procedures, both to ensure proper detection and addressing of ethical concerns, and to instill trust in the process for enforcing ethical conduct.

Purpose and Scope of the Study

Stakeholders everywhere have come to demand sounder governance in private, public, and intergovernmental institutions. In the private sector, a broad consensus has emerged in the past two decades about what constitutes good governance, and this consensus is now embodied in a variety of codes and principles. Elements of this consensus are seen as applicable to intergovernmental organizations, and several of them, including the World Trade Organization, the United Nations, the Bank for International Settlements,

and the Organization for Economic Cooperation and Development, have recently taken a close look at their own governance (IEO, 2007).

One critical element of corporate governance is how well the Fund's internal systems are designed to promote ethical behavior and manage ethical problems involving those who are responsible for running the organization on a day-to-day basis. Stakeholders must be confident that this group's members do not have personal conflicts, and do not take advantage of their positions, thereby damaging the Fund's credibility and reputation.

Public and private organizations also face difficulties in addressing conflict of interest and other ethics issues. But because they are subject to external laws and regulations, agency investigators, and the judicial system, as well as oversight by external watchdog organizations and stakeholders, they have strong incentives to address their governance problems. This paper reports on the Fund's current structures, policies, and practices that are designed to identify and manage conflicts of interest and prevent/address the abuse of power by members of the Executive Board¹ and Management,² including the Codes of Conduct for the Executive Board and staff, the provisions of the Managing Director's contract, the operations of the Board's Ethics Committee, and the Fund's By-Laws and Rules and Regulations. The main findings are presented in the next section. The final section reviews best-practice guidelines and codes of conduct with relevance for the IMF.

Findings

The Fund Lacks Clearly Stated Expectations and Guidelines for Ethical Behavior

The Fund's formal governance system promotes collegiality among, and autonomy within, the executive directors' and Managing Director's offices.

Though the ultimate authority at the Fund is the Board of Governors, consisting of one governor for each of the 185 member countries, it is the 24-member Executive Board that is expected to "conduct . . . the business of the Fund, and for this purpose shall exercise all the powers delegated to

¹"Executive Board" refers collectively to the executive directors, their alternates, and senior advisors.

²"Management" refers collectively to the Managing Director and three deputy managing directors.

it by the Board of Governors.”³ However, the executive directors that constitute the Board are not expected to act solely in the interests of the Fund. This structure has led to an expectation and reality that the executive director’s duty of loyalty is divided between his/her constituency and the Fund.⁴ In policy and academic discussions one can find different views on where the executive director’s loyalties should lie, that is, solely to the IMF or divided between the IMF and his/her constituency (see Gianviti, 1999). In the case of an appointed director there could also be a presumption that the director is primarily, if not only, accountable to his/her authorities who can remove him/her at their pleasure.

The Executive Board selects the Managing Director, who serves as the Executive Board’s chair. He also is “chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund. Subject to the general control of the Executive Board, he shall be responsible for the organization, appointment, and dismissal of the staff of the Fund.”⁵

Neither the executive directors nor the Managing Director receive training or are educated regarding expectations the Fund has for them to behave ethically, enforce proper standards of ethical behavior in their offices, and address ethical dilemmas and concerns among their staff. The executive directors receive the Board Code at orientation, but little more information regarding ethical standards. Anecdotal evidence suggests that while the executive directors and Managing Director may, as senior officials who may have held important government positions in their home countries, understand the concept of ethical behavior, they may not understand what this means in terms of their duties to the Fund and the Fund’s expectations of them regarding ethical leadership and management of ethical misconduct issues within their own offices. This is important because of the diversity of cultures and legal systems among their countries of origin.

The formal, high-level process for considering and addressing ethical issues, management concerns, and misconduct among executive directors set forth in the Executive Board Code of Conduct lacks the specific, written procedures to guide those responsible for investigating potential ethical problems and recommending follow-up actions.

Like other international financial institutions and some corporations, the Fund maintains separate codes of conduct and policies for the

³Articles of Agreement XII Sec. 2(j).

⁴Individuals interviewed for this paper referenced the executive director’s “divided loyalties.”

⁵Articles of Agreement XII Sec. 4(b).

Executive Board and the staff.⁶ There is nothing inherently wrong with this; in fact, separate codes may be helpful, in that they will reflect the different roles and expectations of the Executive Board, Management, and staff. However, if the codes differ in ways that seem unfair to one group, employees may come to resent their more stringent rules. Also, when certain people (the Managing Director, in the IMF case) are not mentioned in either, staff can be confused about what rules apply to them.

The IMF Board's decision to establish a separate Code of Conduct for Members of the Executive Board ("Board Code") without being legally required to do so demonstrates the Board's good faith and interest in ensuring ethical behavior.

The Board Code is the single source of information regarding the Fund's expectations for executive directors' behavior. For this reason, it is important that the Board Code set forth clear expectations. Yet, the Board Code's language reads, for the most part, as a set of recommendations rather than rules. For example, the Board Code states that executive directors "*should* observe the highest standards of ethical conduct," and "*should* ensure they observe local laws,"⁷ rather than that they are *required* to or *shall* observe the highest standards of conduct and local laws.⁸

Given the thought and planning that went into creating a Board Code, and the repeated use of non-binding language, one might conclude that the absence of mandates was deliberate. As one interviewee stated, the Board Code relies on the possibility of censure and the embarrassment factor, rather than on clear, strict rules to enforce good behavior among executive directors.

By contrast, the IMF Staff Code is detailed. A plethora of policies and procedures complement it, and communications are posted and delivered to staff about the rules.⁹ The Ethics Office maintains written procedures to

⁶See, for example, the Board and Staff Codes of Conduct for the World Bank, Inter-American Development Bank, and European Bank for Reconstruction and Development.

⁷Code of Conduct for Members of the Executive Board, p. 4. These are just examples; throughout the Code the references are to what executive directors "should" do.

⁸For example, compare this language to the AIG Director, Senior Officer, and Senior Financial Officer Code of Business Conduct and Ethics statement on Honest and Candid Conduct: "Each director, executive officer, and senior financial officer owes a duty to AIG to act with integrity. Integrity *requires* among other things, being honest and candid." Other codes I reviewed also have similarly strong language.

⁹These include the so-called "N-Rules," general administrative orders, and other policies; as well as the Ethics Office Investigation Procedures, the procedures governing Grievance Committee hearings, and procedures for the Administrative Tribunal. This list is not exhaustive but provided as an example.

guide its investigations of alleged staff misconduct. And there are multiple processes for review of personnel decisions (e.g., informal Human Resources Department review, Grievance Committee, Administrative Tribunal).

If the culture of the Fund were such that both the letter and spirit of the Fund's own rules prevailed, this discussion about wording might be insignificant. However, interviewees have suggested that the culture of the Fund is to overemphasize the letter but not the spirit of these rules. If this is true, then there is a risk that would-be violators will consider the language to be more permissive than was intended (e.g., that "should" means "should but need not"). Of course, if the language is intended to be more permissive than directive, and the Board Code really is designed to be inspirational, then there is a heightened risk that would-be violators will feel free to not take the Board Code seriously and instead do as they please.

The establishment of a Board Ethics Committee was a positive step, but one that could have been more effective had the Committee been active and the Code become a central resource for understanding and enforcing expectations for ethical behavior. Indeed, the absence of public ethics scandals seems to be more a consequence of luck than good planning and action.

The Executive Board established an Ethics Committee in 1998 to consider executive directors' ethical issues and provide, upon request, guidance to the executive directors. The Ethics Committee consists of five executive directors (and four alternates) selected by the Board at the general election of executive directors.¹⁰ The Fund's General Counsel is the permanent Secretary of the Committee.

Having a Board Code (formally adopted in 2000) and an Ethics Committee are steps in the right direction. The Executive Board should be commended for not waiting until it faced a public scandal to have decided that a Code of Conduct is necessary. And yet, to be effective, any tool must be used. The reality is that the Board Code is not often consulted and the Ethics Committee has never met to consider any issues other than its own procedures.

Why, after nine years, has the Board Code not become an important reference for executive directors? Why has the Ethics Committee not met? Is it really possible that no executive director has faced a potential conflict of interest requiring Ethics Committee consultation? Have there been no allegations against an executive director or Managing Director that were worthy of investigation? The answers to these questions are largely

¹⁰Code of Conduct for Members of the Executive Board.

unknown. This suggests a need for a formal resource for consultation and investigation regarding ethics issues.

A review of the annual numbers of staff requests for advice and allegations by the Ethics Officer¹¹ further suggests that it is unlikely that *no* issues have arisen among the executive directors or Management that warrant consideration by the Ethics Committee or Executive Board. The Ethics Officer states in her annual report for 2005–06 that organizations can expect to receive about three contacts (requests for advice or allegations) per 100 employees per year. The report notes, however, that the Fund's experience exceeded this ratio in 2006, with 5.43 contacts per 100 employees. The number was more consistent with the Ethics Officer's prediction in previous years.

Ethics Committee members who are responsible for conducting investigations do not receive training on how to conduct an effective investigation of alleged misconduct, for example covering:

- The standards that govern when the Ethics Committee is obligated to investigate an allegation of misconduct; for example, when the allegation arises from an anonymous complaint, is vague, or relates to conduct that is not specifically prohibited by criminal law or internal policy, or to conduct that relates to an executive director's personal affairs.
- Expectations regarding creation and maintenance of records related to inquiries and investigations.
- The process for ensuring that complainants are not retaliated against for making good faith/reasonable complaints of misconduct against an executive director.

The recently retired Dean of the Executive Board (the longest serving member of the Executive Board) was a well-known, respected resource for consultation on ethics and conduct issues. In practice, he may have been the closest thing to an Ethics Officer for the Executive Board, and in fact sat on the Ethics Committee.¹² However, he was not an Ethics Officer, and himself pointed out the limits of his informal investigative role. Interviews for this paper indicated that he was widely seen to be the only person with sufficient authority to inquire into ethical problems of the Fund's

¹¹See the Ethics Office Annual Reports for 2005–06, which detail several investigations annually of potential ethics violations. According to this report, the Ethics Office has received an average of 47 allegations per year and 61 requests for advice since 2001. See pp. 11–14.

¹²The Executive Board had the same Dean from the time of the creation of the Ethics Committee in 1998 until the end of 2007. A new Dean was named beginning in 2008.

Executive Board or Managing Director, and that his personal integrity was what lay behind this authority. Others corroborated that he was the individual whom most would have approached with concerns about an executive director or the Managing Director.

Further, neither the Ethics Committee nor the Dean's office has financial resources allocated to it to pay an outside party to conduct an investigation. In 2005, the Ethics Committee announced its intention to hire a law firm on retainer to conduct investigations as necessary.¹³ However, this plan was never executed because the Chairman of the Ethics Committee left the Executive Board, and no one pursued the issue afterward. Therefore, it is unlikely that an effective investigation of alleged misconduct by an executive director or by the Managing Director could be initiated as quickly as it would need to be.

Thus, under the current structure, how ethics issues at the Managing Director and executive director levels are handled depends solely on the interests and personal integrity of those who are designated as contact points for ethics issues. This absence of formal structure may work well, so long as there are Ethics Committee members and a Dean who are interested in ethics issues and the Fund's well-being generally, and are willing to take time for confidential inquiries and difficult conversations.

An organization that allows unethical conduct by its executives will inevitably see similar behavior among its lower-level employees. At the Fund, the Board's decisions to establish a Board Code and an Ethics Committee are a sign of change in the tone at the top. However, at least one ethics expert at the Fund believes that despite these actions, there have been no clear statements of values and ethical expectations from the Executive Board. Vague statements in the Board Code reinforce this perception that there is little top-level concern about ethics.

The Fund Lacks Clear and Protected Arrangements for Reporting Possible Misconduct

The system may discourage reports of wrongdoing and increase the risk (and perceived risk) of retaliation by executive directors and the Managing Director against those who report misconduct. Without guaranteed, credible protection from retaliation for staff members who report concerns about misconduct, there

¹³See IMF Board paper, "Selection of External Consultant Firm to Assist the Ethics Committee of the Board," approved by Chairman of the Ethics Committee, dated February 24, 2005.

is an increased risk that conflicts of interest and other ethical problems of an executive director or Managing Director will go undetected.

Neither the Board Code nor the Staff Code of Conduct contains a clear statement of whistleblower protection and anti-retaliation for complaints against the executive directors or Managing Director.¹⁴ The Board Code makes no reference to whistleblower and anti-retaliation issues. The Staff Code references these issues but only in relation to other staff members and only in a “question and answer” format. Indeed, whistleblower protection is a known concern at the Fund, but it has not been actively addressed yet.¹⁵

And yet, reports from interviews with the Ethics Officer and Ombudsman have consistently voiced concerns raised by staff and outsiders (such as vendors) regarding actual and perceived retaliatory conduct.¹⁶

In particular staff who work in executive directors’ offices face a special risk of retaliation by an executive director, with unclear recourse. The By-Laws state that “Secretarial and staff services, office space, and other services incidental to the performance of the duties of the executive directors and alternates shall be provided by the Fund.”¹⁷ The Board Code states that “executive directors should apply, to the extent possible, the provisions of the Fund Staff Code of Conduct to assistants in their own offices.”¹⁸ However, most people interviewed on this issue believe that there is very little that the staff in executive directors’ offices can do if they face unfair treatment or retaliation by an executive director. They could move to a position within Fund staff, although it is not certain that this is guaranteed. In any case, an executive director would face no serious threat to his or her position in the face of a complaint from an office staff member.

A staff member can file a grievance with the Grievance Committee regarding a decision taken by the Managing Director.¹⁹ However, multiple layers of administrative review are required for these and any other staff concerns, which could serve to chill staff members’ efforts to seek redress of grievances, especially those grievances involving the Office of the Managing Director.

¹⁴See Ethics Guidelines for Conducting Inquiries Related to Allegations of Misconduct.

¹⁵Whistleblower protection issues are a concern at the World Bank as well; see Vaughn (2005). In December 2007, the Fund’s new Managing Director announced his intention to put in place whistleblower protection but details have yet to be provided.

¹⁶See, for example, the Ethics Officer’s Report to Fund Staff for 2004; Ethics Office Annual Reports for 2004–2005 and 2005–2006.

¹⁷By-Laws, Section 14(j).

¹⁸Board Code, p. 3. Note that the words “should” and “to the extent possible” make what otherwise could be a strong statement much less so.

¹⁹See GAO No. 31 Rev. 3, Sec. 6.06.

Even executive directors may not feel empowered to report misconduct by a Managing Director for fear of retaliation by the Managing Director. To retaliate against an executive director who complained about his conduct, a Managing Director could, for example, delay an initiative that is important to an executive director's constituency, or complain to an executive director's home country that the director was being uncooperative.

Neither the policies nor the structure of the Fund encourage any person to report misconduct by an executive director or Managing Director to any authority. Nothing in the Staff Code of Conduct explains how to report a concern about an executive director or Managing Director. Indeed, no direct contact information at all is provided in the Staff Code for those who need to report misconduct about an executive director or the Managing Director.

In contrast, most corporate Codes of Conduct (see below) either strongly encourage or require employees to report serious misconduct (e.g. violations of the Code of Conduct or financial improprieties) of which they are aware.²⁰ All provide multiple avenues for reporting, complete with contact information. Often, a management-level employee's failure to report known misconduct is itself grounds for discipline.

The absence of a central resource or mechanism for receipt of complaints and concerns (including anonymous complaints) about executive director or Managing Director misconduct further increases the risk that such concerns will go undetected.

A person who decides to report a complaint about an executive director or Managing Director has several people to whom he may make a report:

- If he is a staff member, he may talk to a Human Resources officer, the ethics officer, or the ombudsman.
- Regardless of his status, he may report his concern to any executive director since an executive director has the authority to raise an issue regarding another executive director or the Managing Director. However, none of these people would be required to act on such a report.
- For executive director-related concerns, he may also go to the Ethics Committee (or any Ethics Committee member).

Although there are multiple avenues for reporting, there is no definitive authority to which reports about any misconduct can be made. And yet, this is exactly what a person who has a complaint needs: an easy-to-locate,

²⁰Again, see AIG's Director and Senior Officer Code, p. 5, which states that "Any director, executive officer, or senior financial officer who becomes aware of any existing or potential violation of this Code shall promptly notify AIG's General Counsel. . . . AIG will not tolerate retaliation for reports of violations of this Code made in good faith."

confidential resource or person with whom to share his concern. If he has to figure out how to navigate the system to find someone who can take his report, he may just stop trying. This greatly increases the risk that high-level misconduct could go undetected.

In addition, neither the rules nor the structure of the Fund allow or encourage anonymous reports of misconduct. In fact, the Ethics Office Annual Report for 2005–06 states that the Fund does not accept anonymous complaints (p. 27). Thus, an employee who wants to report misconduct (whether by another staff member, the Managing Director, or an executive director) but fears retaliation has limited options: essentially, he or she can consult the ombudsman or ethics officer for guidance. While the Fund has concerns that anonymous reports will encourage unfounded allegations and slander against senior officials, the lack of a ‘hotline’ or some other anonymous reporting mechanism may cause some actual misconduct to go unreported.

Thus, IMF employees may feel they have no way to report misconduct in a manner that provides them with credible protection from retaliation. This possibility is compounded at the Fund, since the executive directors and the Managing Director are not subject to civil actions for damages. In corporations, misconduct can be reported to outside enforcement agencies for investigation and possible civil or criminal charges.

The Fund Lacks Clear Disciplinary Arrangements

The Executive Board has no authority to discipline an executive director who is found to have committed misconduct, beyond issuing a warning letter to the executive director, and disclosing that letter to the relevant governors and/or home country authorities.

The Fund can exercise no “ultimate” enforcement authority over executive directors for violations of ethics principles. Although the Board of Governors is supposed to oversee generally the conduct of the Executive Board members, there seems to be no active, on-site governing body to enforce ethical conduct among executive directors. For appointed executive directors, oversight is carried out by the Board of Governors and home country officials. For an executive director who is elected, oversight of his behavior has little force, since that executive director may not be removed from office before his or her term expires.²¹

The Fund’s policies do not require an executive director to resign or be subject to corrective action upon a finding (by the Ethics Committee or

²¹Articles of Agreement XII, Section 3, which is probably the best place for such language, contains no language regarding removal of an executive director.

the Executive Board or the Board of Governors) of misconduct.²² In fact, because neither the Board of Governors nor the Executive Board has ever held a meeting to consider sanctions against an executive director for misconduct, it is difficult to know whether issuing a warning letter would be a strong enough form of discipline to constitute successful corrective action against an executive director.

The Fund's By-Laws establish the Executive Board's responsibility to consider and address alleged misconduct by the Managing Director, but there are no procedures explaining how to enforce this responsibility.

The Executive Board alone has the authority (with a majority vote) to remove a Managing Director who has engaged in misconduct.²³ But no committee is designated to collect and consider claims or concerns expressed against the Managing Director. Any issue related to the Managing Director's conduct must be raised before the entire Board.

How such a complaint or concern would be brought forth and investigated by the 24-member Board is unclear. Unlike at the World Bank, the Fund has no formal procedures for investigating an allegation of misconduct by the Managing Director.²⁴ The Executive Board Ethics Committee—which is logically the group that would handle such complaints and make recommendations—has no responsibility for this task.

The ethical standards against which the Managing Director must be measured are unclear to those who would need to enforce them. The Managing Director is subject either to the Staff Code or to both the Staff Code and the Board Code, but neither Code actually states that it applies to the Managing Director. The current Managing Director's contract²⁵ only states that:

[Y]ou shall observe the standards of conduct applicable to staff members of the International Monetary Fund. In that regard, you shall avoid any conflict of interest, or the appearance of such a conflict. . . . If you need clarification regarding the meaning of the above requirements or their application in a particular circumstance, you should consult with the Executive Board.

While this seems to imply that the Managing Director is subject to the staff code of conduct, the mechanism for its application is not clear.

²²Articles of Agreement XXVI seems to be the best place for such language, but no such language exists.

²³Articles of Agreement XII, Sec. 4(a) and Sec. 5(c).

²⁴See World Bank: Second Report of the Ad Hoc Group, May 14, 2007 regarding the Paul Wolfowitz investigation. The report references the World Bank's procedures for such investigations.

²⁵Terms of Appointment of Dominique Strauss-Kahn as Managing Director of the International Monetary Fund, November 2, 2007, p. 1.

Consider, in contrast, the World Bank President's 2007 contract, which clearly states that "You will adhere to the standards set forth in the Code of Conduct for Board officials (the Code). You will also observe the standards of ethical conduct applicable to staff members of the Bank, where these reflect a stricter standard."²⁶

There Are Deficiencies in the Policy on Post-Fund Employment

Senior public servants who leave public service are frequently subject to "cooling off" periods designed to ensure, among other things, that confidential or market-sensitive information to which they may have had access is not compromised. Some government agencies also restrict contacts between the departing official and their agencies for a prescribed period following departure, to avoid the official's use of personal contacts to obtain confidential information or to "lobby" the agency. In many private corporations, particularly in the financial sector, the employment contracts of senior officials restrict the type of activities in which the official may engage for the period just after separating from the company. In the IMF, the most senior officials, and the Managing Director in particular, have access to highly market-sensitive information. As with senior public servants, a "cooling off" period would seem necessary for senior Fund officials, not the least to protect the institution from possible reputational damage.

Restrictions on the Managing Director

According to the provisions of his employment contract, the Managing Director is required to "observe the standards of conduct applicable to staff members"²⁷ and "shall avoid any conflict of interest, or the appearance of such a conflict."²⁸ For the Managing Director as for IMF staff, there are no specific restrictions on post-Fund employment, though the MD's terms of appointment stipulate that he may not, without the Executive Board's

²⁶Terms of Appointment of Robert B. Zoellick as President of the International Bank for Reconstruction and Development, June 29, 2007, p. 2.

²⁷In May 2006, the IMF adopted a new policy for staff on post-Fund employment to limit the scope for conflicts of interest arising from negotiations for employment outside the Fund (see "Conflicts of Interest—Post-Fund Employment," IMF Staff Bulletin No. 06/4, May 10, 2006). This policy augments the IMF Code of Conduct for Staff, which stipulates that ". . . staff members who separate from the IMF should not use or disclose confidential information known to them by reason of their service with the IMF and should not contact former colleagues to obtain confidential information."

²⁸The current Managing Director's contract is available at www.imf.org/external/np/sec/pr/2007/pr07245.htm.

approval, apply for or accept any public or private employment or position.²⁹ The MD is also required, if he wishes to resign, to “give the Fund reasonable advance notice of his decision.” If the Managing Director decides to seek political office, his immediate offer of resignation is required.

For the Managing Director, the restrictions on applying for or accepting any public or private employment, combined with the requirement of advance notice of resignation, have been interpreted by the Fund’s Legal Department as providing “the possibility” that the Board could “impose a type of cooling-off period prior to his separation, during which actual or perceived conflicts of interest could be addressed.”³⁰ The rule for Fund staff, including all deputy managing directors, is that if the Director of the Human Resources Department (HRD) determines that a real or apparent conflict of interest is present, a recommendation for recusal from assignments, reassignment, or limits on access to documents may be made. The Director of HRD may also decide to extend the minimum 30-day notice period for resignation to up to 90 days. This has been interpreted as a *de facto* cooling off period during which the staff member’s access to sensitive materials can be restricted.

It is unlikely that the Managing Director’s access to sensitive information could be shielded to the same extent as for staff. In this regard, the *de facto* standard of protection against a conflict of interest on the part of the MD could be seen as less stringent than that for IMF staff. This carries a potentially significant reputational risk for the Fund. Consideration should therefore be given to strengthening existing provisions, including by making them more explicit, and perhaps by including a provision committing the Managing Director not to be employed by a financial institution for a given period after leaving the IMF. While it may provide difficult to make such a commitment legally binding, there would likely be a significant reputational cost to any departing Managing Director who reneged on his commitment.

Restrictions on Members of the Executive Board

Members of the Executive Board (EDs, alternates, and senior advisors) are subject to their own Code of Conduct. The dictates of that code with

²⁹This is more stringent than for Fund staff, who are not required to notify the Fund when they enter into negotiations with prospective employers regarding potential employment. However, staff are *encouraged*, in cases where such prospective employment would create a conflict of interest (real or apparent), to consult the Ethics Officer at an early stage. Staff are only required to notify the Director of the Human Resources Department (HRD) when they receive a formal offer of employment from any public or private institution whose financial interest may be affected by the work of the Fund.

³⁰Memorandum from Legal Department to IEO, February 19, 2008.

respect to post-Fund employment are, as with other aspects discussed elsewhere in this paper, less strict than for staff. The Code indicates that members of the Executive Board should not allow negotiations on or acceptance of an offer of post-Fund employment:

... to affect the performance of their duties. Where involvement in a Fund matter could be, or could be perceived as, benefiting the prospective employer, regardless of whether there is detriment to the Fund or their constituents, executive directors should recuse themselves. Executive directors who leave the Fund should not use or disclose confidential information known to them by reason of their service with the Fund, and should not contact executive directors or other Fund officials (other than through official channels) to obtain confidential information . . .³¹

There are no provisions requiring notice of negotiation for, or acceptance of, post-Fund employment. The exception is with respect to employment on the regular staff of the Fund. Fund Management has adopted a policy that, unless previously employed on the staff, “executive directors will not be appointed to the staff or any other type of Fund employment (except as Deputy Managing Director) for a period of at least one year (six months in the case of Alternates) following their departure from the Board, and such cases are expected to be few.” There are no similar time restrictions on senior advisors, even though they are considered to be members of the Executive Board.

Executive directors and their staff generally have narrower access to highly market-sensitive information than does the Managing Director. Moreover, many of them return to their governments or central banks after their time on the Board, rather than moving to the private sector. Nevertheless, consideration should be given to requiring an explicit commitment to restrictions on post-Fund employment for a set period after leaving the Board.

Guidelines and Codes of Conduct with Relevance for the IMF

Guidelines and Principles

OECD Principles of Corporate Governance Chapter VI: The Responsibilities of the Board. The Organization for Economic Cooperation and Development (OECD) guidelines (OECD, 2004) set forth principles for corporate board

³¹“Code of Conduct for the Members of the Executive Board of the International Monetary Fund,” adopted July 14, 2000, revised December 12, 2003.

governance internationally. These are intended to be a tool for the World Bank and the Fund to use in voluntary assessments of companies,³² and are recognized as a key source of guidance worldwide for corporations seeking to improve their governance practices.

The OECD's overarching principle for Board governance, outlined in Chapter VI, is stated as follows:

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders. The outcome advocated is that companies are professionally managed but subject to effective oversight by the board so as to prevent self-dealing and to ensure that the interests of shareholders are taken into account by the management. In other words, the board's role is to contain the agency problem associated with professionally managed, public companies.

A key question in this regard is how the Fund's Executive Board truly can be empowered to provide effective, consistent oversight of the Managing Director.

The question for the Fund is whether the Executive Board is able to contain its own "dual agency" problem associated with being a professionally managed, international financial institution. Currently, Executive Board members are less accountable for their own behavior than they should be, at least as a formal matter.

A secondary principle is Principle VI.A, which states that:

Board members should act on a fully informed basis, in good faith, with due diligence and care and in the best interests of the company and its shareholders. The outcome sought by the principle is a board which is informed and objective in its oversight of professional management. It is arguably the

³²See the Methodology for Assessing the Implementation of the OECD Principles of Corporate Governance, (OECD, 2006). The Methodology states (Paragraph 2) that: "The OECD Principles (Principles) are one of the Twelve Key Standards for Sound Financial Systems adopted by the Financial Stability Forum (FSF). Most standard setters have developed an associated methodology that, together with the standards, forms the basis for the voluntary assessments undertaken by the IMF/World Bank either in the form of a Review of Observance of Standards and Codes (ROSC) or as part of the Financial Sector Assessment Program (FSAP). One exception to this development has been the OECD Steering Group on Corporate Governance, which never developed an assessment methodology for the Principles, with the World Bank developing its own procedures for assessment purposes. At its October 2004 meeting, the Steering Group decided that the analytical framework, which would underpin its dialogue on implementation of the Principles (henceforth termed Methodology), should be developed so that it could also serve as the methodology for the ROSCs that use the Principles as the reference standard."

most important individual principle of the Principles. Indeed, if it were fully implemented and enforced in a jurisdiction there would be little need for other individual principles. In many ways, a number of the other principles are intended to ensure that the principle is implemented as effectively as possible.

This standard covers the central two duties of a Board in the usual sense: to exercise a duty of care and a duty of loyalty to the company and its shareholders. As stated above, the Fund's executive directors have dual loyalties between the Fund and their constituencies. However true, at no time should an executive director act in a way that places his or her *self-interest* before his or her duty to his constituency or to the Fund. When an executive director engages in misconduct, self-interest versus Fund interest is the conflict at issue. It should be clear that, dual loyalties notwithstanding, an executive director always has a duty to avoid conduct that would inure to the detriment of the Fund. Such clarity can be present in a policy, but without a dedicated enforcement mechanism it is without strength.

A third principle is Principle VI.C, which states that:

The board should apply high ethical standards. It should take into account the interests of stakeholders. The principle makes it clear that the board is responsible for establishing the "tone at the top" not only by its own actions, but also in appointing and overseeing key executives and consequently management in general. An overall framework for ethical conduct goes beyond compliance with the law, which should always be a fundamental requirement.

This principle reinforces the ideal that the Executive Board should actively promote a culture that goes beyond the letter of the rules to capture the spirit of those rules.

The OECD's Guidelines for Multinational Enterprises, while more general, may also be a helpful reference. These guidelines (OECD, 2000) support the concepts of good governance through the establishment and promotion of clear policies and practices. Some principles include:

- Tone from the top: "Develop and apply effective self-regulatory practices and management systems that foster a relationship of confidence and mutual trust between enterprises and the societies in which they operate."
- Education and awareness: "Promote employee awareness of, and compliance with, company policies through appropriate dissemination of these policies, including through training programmes."
- Whistleblower protection: "Refrain from discriminatory or disciplinary action against employees who make bona fide reports to management or, as appropriate, to the competent public authorities,

on practices that contravene the law, the Guidelines or the enterprise's policies."³³

OECD Guidelines on Corporate Governance of State-Owned Enterprises. The OECD also has issued guidelines for internal governance of state-owned enterprises (SOEs) (OECD, 2005). Similarly to the Principles of Governance (above), these guidelines recommend that SOEs develop and implement codes of conduct and compliance programs aligned with the OECD's Guidelines for Multinational Enterprises. Regarding the relationship of the organization and its senior officials to stakeholders, the Guidelines for SOEs state:

The code of ethics should include guidance on procurement processes, as well as *develop specific mechanisms protecting and encouraging stakeholders, and particularly employees, to report on illegal or unethical conduct by corporate officers.* In this regard, the ownership entities should ensure that SOEs under their responsibility effectively put in place safe harbours for complaints for employees, either personally or through their representative bodies, or for others outside the company. SOE boards could grant employees or their representatives a confidential direct access to someone independent on the board, or to an ombudsman within the company. The codes of ethics should also comprise disciplinary measures, should the allegations be found to be without merit and not made in good faith, frivolous, or vexatious in nature [*emphasis added*] (OECD, 2005: 39).

Thus, even for SOEs, the OECD recommends a strong compliance program and reporting mechanism for employees to report concerns about senior officials.

Open Compliance and Ethics Group Governance Model (OCEG). OCEG is one of few nonprofit organizations offering comprehensive guidance, standards, benchmarks, and tools for integrating governance, risk, and compliance processes. It seeks to help organizations drive performance by enhancing corporate culture and integrating governance, risk management, and compliance processes. Its founders include numerous ethics and compliance experts, as well as major corporations.³⁴

OCEG's *Foundation "Red Book"*³⁵ provides a comprehensive set of guidelines for organizations to use in their efforts to build and promote a

³³See www.oecd.org/dataoecd/56/36/1922428.pdf, p. 19.

³⁴See OCEG's website at www.oceg.org/iew/LeadershipCouncil for a list of founding members and Leadership Council participants, including Global Compliance (Brightline Compliance's parent company as of June 2007), Deloitte, Dell, Ernst & Young, PricewaterhouseCoopers, Unilever, and Wal-Mart.

³⁵The Red Book can be found at www.oceg.org/view/Foundation.

culture of ethical behavior. The guidelines combine the key elements of the most important governance guidelines³⁶ to recommend, among other things, specific written processes for:

- Developing a Code of Conduct;³⁷
- Communicating expectations regarding ethical behavior;³⁸
- Assessing risk related to ethical misconduct;³⁹
- Training employees and senior leadership on code requirements and expectations;⁴⁰
- Receiving, investigating, escalating, and managing complaints of misconduct;⁴¹ and
- Protecting the anonymity and confidentiality of those reporting misconduct.⁴²

Codes of Conduct

A literature review and a review of codes of conduct in the public and private sectors indicates that a common best practice is to include clear, strong language regarding the critical requirements for ethical behavior.

In 2005, the *Harvard Business Review* published an article (Paine and others, 2005) that surveyed best-practice guidelines and the Codes of Conduct of respected corporations to glean the common principles. The article sets forth a “Global Business Standards Codex” that “is intended . . . as a benchmark for those wishing to create their own world-class code. It represents an attempt to gain a comprehensive, but simplified, picture of

³⁶Sources include: US Federal Sentencing Guidelines for Organizations, DOJ Holder/Thompson Memo, Sarbanes-Oxley, SEC 21(a) enforcement decisions, Caremark decision, COSO Internal Control, COSO ERM/AS NZS 4360, ISO 9000 series/6s quality frameworks, various U.S. regulatory frameworks and guidance (e.g., HHS), and various CSR frameworks and guidance (AA1000, SA8000, etc.).

³⁷Red Book at PR2, “Develop Code of Conduct.”

³⁸Red Book at C1.1, “Define Principles and Values,” including defining the organization’s values and communicating those values internally and externally.

³⁹Red Book at P05.1, “Define Risk Assessment Methodology.”

⁴⁰Red Book at PR3.1.S01, “Train governing authority, high-level personnel, substantial authority personnel, organization employees, and as appropriate, organization agents, on the compliance and ethics program as well as on individual roles and responsibilities.”

⁴¹Red Book at R1.1.I01, “Define issue management methodology including these key steps: intake, categorization of an issue or question, confirmation/validation of an issue, analysis of an issue, investigation of an issue, escalation of an issue, resolution of issue/question, recommended remediation/discipline of individuals.”

⁴²Red Book at R1.1.I09, “Define a policy and procedure for protecting the anonymity of reporters during processing and resolution.”

the conduct expected of today's corporations." In addition to provisions on individuals' duty of loyalty, prevention of harassment and discrimination, and responsiveness to employees, "provisions forbidding retaliation against employees who report misconduct are also widespread in codes of conduct" (Paine and others, 2005: 5).

Independent Review of Corporate Codes of Conduct. A review of the Codes of Conduct of 13 multi-national, highly respected corporations from various sectors (see list in Annex)⁴³ shows that most of them have a single set of ethics rules applicable to directors, officers, executives, and employees, with perhaps an additional, supplemental code of conduct for senior financial officers to satisfy the Sarbanes-Oxley Act and New York Stock Exchange requirements.⁴⁴ In all cases the codes for senior executives were equally or more strict in their behavioral requirements, emphasizing prohibitions on actual and perceived conflicts of interest and abuses of power. They all include strong statements encouraging reports of wrongdoing and prohibiting retaliation for reporting misconduct or participating in investigations of misconduct. Whistleblower protection is either explicitly stated or implied through the statements against retaliation and encouraging reports of misconduct. At these corporations, a failure to raise real or potential conflicts of interest is grounds for discipline up to and including removal from office.⁴⁵

⁴³The 13 organizations are a representative sample of companies listed on *Business Week's* Global 1000 (2003) Top 10, or *Financial Times* World's Most Respected Companies 2004 list (international companies only). Several of these codes of conduct were reviewed by Paine and others (2005) as well.

⁴⁴Nine of the corporations had one code that applied (or appeared to apply, as there was only one code listed on the website) to all directors, officers, executives and employees combined—BP, Citigroup, ExxonMobil, Intel, Nestle S.A., Pfizer, PricewaterhouseCoopers, Shell, and Toyota. Three had codes that applied to everyone, with a supplemental code that applied to executive or senior financial officers: Johnson & Johnson, Microsoft, and Wal-Mart. Only one—AIG—did not. AIG's employee code of conduct states that it applies to all officers, and there is an additional code for directors, executive officers, and senior financial officers.

⁴⁵Although the Children's Place code of conduct was not part of this review, a good example of the consequences for failure to disclose perceived conflicts can be found in the recent forced resignation of Children's Place CEO Ezra Dabah for violations of securities rules. According to two September 26, 2007 press releases posted on the company's website, and numerous media reports, Dabah resigned on September 24 from the children's clothing retailer after an internal investigation found that Dabah twice pledged Children's Place shares during a "blackout period" without board approval and did not properly report an immaterial increase in his wife's ownership of company stock to the company. In an additional investigation, the company found irregularities in expense reimbursement practices on the part of the Chief Creative Officer.

The *World Bank's Revised Code of Conduct for Board Officials*⁴⁶ is stronger than the Fund's Board Code in some key respects. First, the Code explicitly states that the President of the World Bank/IFC is subject to the Board's official Code. Second, the World Bank Code's section on Conduct within the Institution and Other Places uses the term "shall" (denoting an obligation) instead of "should" in stating the requirement for proper treatment of staff members. The World Bank Code now includes procedures for the Ethics Committee's activities, whereas the Fund's Board Code attempts to include procedures but only at a very high level.

Another multilateral financial institution—the *European Bank for Reconstruction and Development (EBRD)*—has a Code of Conduct for its Board of Directors that contains much stronger language regarding expectations of the Board. Procedures for handling reports of misconduct are outlined. There is a chief compliance officer and an inquiry officer who are designated to receive and investigate complaints. The Code includes a statement regarding protection of whistleblowers. EBRD's Staff Code of Conduct explicitly includes the President of the Bank.⁴⁷

Annex. Sources

Internal Documents

1. "Aspects of IMF Corporate Governance—Including the Role of the Board: Issues Paper for an Evaluation by the Independent Evaluation Office (IEO)," August 14, 2007
2. Ethics Committee Memorandum dated February 25, 2005 (Selection of External Consultant Firm to Assist the Ethics Committee of the Executive Board)
3. Articles of Agreement
4. By-Laws
5. Code of Conduct for Members of the Executive Board
6. Code of Conduct (Staff)

The Board imposed significant sanctions on the individual involved, including requiring refunds of amounts erroneously charged to the company, a change in position so that the individual will no longer be an officer of the Company, and reimbursement of the Company's out-of-pocket costs incurred in connection with its investigation of the matter.

⁴⁶World Bank Code of Conduct for Board Officials, November 1, 2007 (revised).

⁴⁷European Bank for Reconstruction and Development Code of Conduct for Officials of the Board of Directors of the EBRD, May 2006.

7. Ethics Office Annual Report for 2005–2006
8. Ethics Office Annual Report, 2004–2005
9. Ethics Guidelines for Conducting Inquiries Related to Allegations of Misconduct
10. Rules and Regulations of the International Monetary Fund—N-Staff Regulations
11. General Administrative Orders 31, 33
12. Guide to the Fund's Grievance Procedures
13. Terms of Appointment of Dominique Strauss-Kahn as Managing Director of the International Monetary Fund, November 2, 2007
14. Policy on Harassment (Staff)
15. Policy on Discrimination (Staff)
16. Staff Bulletin: Annual Financial Certification and Disclosure Process

Codes of Conduct

1. AIG Director, Senior Officer and Senior Financial Officer Code of Business Conduct and Ethics statement on Honest and Candid Conduct
2. BP Code of Conduct, 2005
3. Citigroup Code of Conduct, May 2006
4. Board and Staff Codes of Conduct for the World Bank, Inter-American Development Bank, and European Bank for Reconstruction and Development
5. Exxon Mobil Corporation Code of Ethics and Business Conduct
6. Intel Code of Conduct, May 2, 2007
7. Johnson & Johnson Governance Documents, including the Code of Business Conduct and Ethics for Members of the Board of Directors and Executive Officers and Policy on Business Conduct
8. Microsoft Standards of Business Conduct and Finance Code of Professional Conduct
9. Nestlé Corporate Business Principles, September 2004
10. Pfizer: Summary of Pfizer Policies on Business Conduct
11. PricewaterhouseCoopers Code of Conduct
12. Shell Code of Conduct, 2006
13. Toyota Motor Corporation Code of Conduct, March 2006
14. Wal-Mart Governance Documents, including the Statement of Ethics (2005) and Senior Financial Officer Code of Ethics (2003)

References

- Business Week*, 2003, “The *Business Week* Global 1000,” July 14.
- Financial Times*, 2004, “World’s Most Respected Companies,” January 16.
- Gianviti, F., 1999, “Decision Making in the International Monetary Fund,” in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).
- Independent Evaluation Office (IEO), 2007, “Aspects of IMF Corporate Governance—Including the Role of the Board: Issues Paper for an Evaluation by the Independent Evaluation Office (IEO),” August 14. Available via the Internet: www.ieso-imf.org/eval/ongoing/051507.pdf.
- Open Compliance and Ethics Group (OCEG) Red Book. Available via the Internet: www.oceg.org/view/Foundation.
- , website at www.oceg.org/view/LeadershipCouncil.
- Organization for Economic Cooperation and Development (OECD), 2000, “Guidelines for Multinational Enterprises.” Available via the Internet: www.oecd.org/dataoecd/56/36/1922428.pdf.
- , 2005, “Guidelines on Corporate Governance of State-Owned Enterprises, Annotations to Chapter IV—Relations to Stakeholders.” Available via the Internet: www.oecd.org/dataoecd/46/51/34803211.pdf.
- , 2006, “Methodology for Assessing the Implementation of the OECD Principles on Corporate Governance,” December 1.
- Paine, Lynn Sharp, Rohit Deshpande, Joshua D. Margolis, and Kim Eric Bettcher, 2005, “Up to Code: Does Your Company’s Conduct Meet World-Class Standards?” *Harvard Business Review*, December.
- Vaughn, Robert, 2005, “Report on the World Bank’s Whistleblower Procedures,” April 30. Available via the Internet: www.whistleblower.org/doc/Vaughn%20Report.pdf.

11

The Process for Selecting and Appointing the Managing Director and First Deputy Managing Director of the IMF

DAVID PERETZ

This paper reviews the processes for selection and appointment of the Managing Director (MD) and First Deputy Managing Director (FDMD) as they have developed in practice over time. To the extent feasible it examines informal processes within and between member governments, particularly in Europe, in the U.S., and in the G-7, as well as formal processes. Second, it reviews recent improvements in processes in other international organizations for appointing heads. Third, it considers whether there are any lessons to be learned from best practice on the appointment of heads of national public bodies and of CEOs in the private sector. Fourth, it 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. Fifth, it seeks to identify promising approaches to improving the process in the future.

This paper was written in 2007 and revised at the end of 2007 shortly after the appointment of Dominique Strauss-Kahn as Managing Director.

What Is the Current Process, and How Has It Evolved over Time?

The formal position for appointment of the MD, as set out in the Fund's Articles, is that the Managing Director is selected by the Executive Board (by a simple majority). The MD may not be a Governor or Executive Director of the Fund. The reality is that negotiations about candidates take place at government level at least among the countries with largest Fund quotas; and despite increased questioning in recent years, an informal convention remains in place that the MD should be a European, while the FDMD should be a U.S. national as should the President of the World Bank.

The formal position for appointments of Deputy Managing Directors (DMDs) is that the appointments are made by the MD, subject only to the provision in the Articles about all staff appointments, which says: "In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible." In practice the post of Deputy Managing Director—and since 1994, the FDMD—has been understood since it was created in 1949 to be reserved for a U.S. Treasury nominee.

Box 1 summarizes experience in practice in the appointment processes for the seven most recent Managing Directors. It is clear that while the convention has always been that the person selected should be European, the U.S. played a major role in the earlier appointments—including the appointments of the first three MDs, Camille Gutt (Belgium), Ivar Rooth (Sweden) and Per Jacobsson (Sweden). In the last four appointments efforts were made amongst Europeans to agree to a single European candidate, and it was only with the last three appointments that such efforts were successful. Up until 2000 the membership had been presented with some choice of European candidates, giving the U.S. and other non-European industrial countries, and/or the developing countries a say in the final choice. Moreover in 2000 the U.S. did in practice exercise a *de facto* veto over the first European choice, forcing European countries to nominate a second candidate.

With appointments to the post of FDMD (before 1994 the only DMD) the practice has varied, but it seems that for two of the last three appointments the U.S. Treasury offered the MD a choice between more than one candidate. In one case there was some degree of consultation with the wider membership before the MD made his choice. In a second case, only one candidate was presented by the U.S. And in the third case the MD consulted Executive Directors (EDs) on the qualities and experience he should be looking for in a FDMD before making his choice.

Box 1. Selection of Managing Directors, 1963–2007

| Managing Director, nationality, and date of appointment | Comments on selection process |
|---|--|
| <p>Pierre-Paul Schweitzer, France (September 1, 1963 to August 31, 1973)</p> | <p>Backed by the U.S. from a field of several European candidates. But U.S. Treasury Secretary successfully lobbied against reappointment for a third term in 1973.</p> |
| <p>H. Johannes Witteveen, Netherlands (September 1, 1973 to June 16, 1978)</p> | <p>Industrial countries, including U.S. and European countries, had agreed to propose Emile van Lennep, Secretary General of the OECD. But developing countries were unhappy with this choice and persuaded the Netherlands to propose former Finance Minister Witteveen instead, who proved acceptable to all.</p> |
| <p>Jacques de Larosière, France (June 17, 1978 to January 15, 1987)</p> | <p>Governor of the Banque de France, and first approached by the U.S. No effort to produce a single European candidate, and several other names emerged, with Willem Duisenberg, former Netherlands Finance Minister emerging as a serious candidate. Developing country support was divided, however, and in the end Duisenberg withdrew in the face of support for de Larosière from all the G-5 countries.</p> |
| <p>Michel Camdessus, France (January 16, 1987 to February 14, 2000)</p> | <p>After de Larosière announced his intended retirement in September 1986 there were extended efforts to reach agreement in Europe on a single candidate, with Onno Ruding, Netherlands Finance Minister and chair of the Interim Committee, and Camdessus, Governor of the Banque de France the two candidates. Despite a narrow EU majority for Ruding, Camdessus did not withdraw, and by December with the EU still deadlocked both names went forward. A suggestion that Sir Jeremy Morse (U.K. former chair of the C-XX Deputies) be put forward as a compromise candidate was not pursued by the U.K. government. U.S., Japan, Canada, Saudi Arabia, and the Nordic countries remained formally neutral, abstaining from the straw polls arranged by the Fund Board (although U.S. Treasury Secretary Baker quietly let it be known that he preferred Camdessus), giving the developing countries a decisive voice in choosing Camdessus.</p> |

Box 1 (concluded)

Horst Köhler,
Germany
(May 1, 2000
to March 4, 2004)

Almost immediately after Camdessus announced his intention to resign the German Government proposed Deputy Finance Minister Cio Koch-Weser for the post. Although no other candidate emerged it took several months, until end February 2000, for EU Finance Ministers to agree to support Koch-Weser. By then two non-European candidates had emerged: DMD Stanley Fischer, proposed by a group of developing country EDs, and Eisuke Sakakibara, Japanese Former Deputy Finance Minister, proposed by Japan. At that point the U.S. President and Treasury Secretary informed their German counterparts that the U.S. could not support the Koch-Weser candidacy, and after an initial straw poll of EDs, which gave Koch-Weser 43 percent support, his name was withdrawn and Germany proposed Horst Köhler, President of the EBRD instead. He quickly gained EU support, the Fischer and Sakakibara nominations were withdrawn and on March 23 the Board selected Köhler as the only candidate.

Rodrigo de Rato,
Spain
(June 7, 2004
to October 31 2007)

Köhler resigned in March 2004 following his nomination for the German Presidency. In subsequent EU discussions two candidates emerged—Rodrigo de Rato, former Spanish Finance Minister, and Jean Lemierre, French President of the EBRD. The discussions were informed by soundings taken among all IMFC members by Gordon Brown as Chair of the IMFC. Agreement to nominate de Rato on behalf of the EU was reached on April 22. By then a developing country ED had proposed three non-European candidates, of whom one allowed his name to go forward to the final meeting of EDs which decided, after an initial straw poll, to appoint de Rato by consensus on May 4.

Dominique Strauss-Kahn, France
(November 1 2007
to present)

In June 2007 de Rato announced his intention to step down after the 2007 Annual Meetings. In early July EDs agreed a process for selection of a successor, establishing a timetable, a candidate profile and inviting nominations from EDs without geographical preferences. But ahead of that agreement among EDs, EU Finance Ministers had moved quickly to agree to support the candidacy of Strauss-Kahn as proposed by the French Government. The U.S. Treasury Secretary confirmed the U.S. would support any European candidate of “real stature.” By the August 31 deadline there had been only two nominations—Strauss-Kahn, formally nominated by the German ED on behalf of all EU countries, and Josef Tosovsky, a former Prime Minister and Central Bank Governor of the Czech Republic, proposed by the Russian Federation. After hearing presentations from both candidates and interviewing them the Executive Board selected Strauss-Kahn by consensus on September 28.

Sources: Kahler, 2001; Fund press releases; and discussions with and comments from current and former IMF and national officials.

Weaknesses in the Process

There are clearly many weaknesses in these processes judged on the criterion of whether they are likely to produce the best possible field of candidates and best eventual appointments, some much commented on, others perhaps less obvious.

- The convention that the MD should be a European, the FDMD a U.S. citizen (and the President of the World Bank a U.S. citizen) clearly reduces choice. As can be seen from the history, though, how far it reduces choice also depends on whether or not European countries, in the case of the MD, and the U.S., in the case of the FDMD, put forward one or more than one candidate for the post, and on this practice has varied—although in the last three selection processes the EU has agreed in advance on a single candidate.
- Before 2007 there was no statement of the qualities, expertise and experience that candidates should have, and even in the 2007 process the “candidate profile” established by the Executive Board fell short of a full job description.
- Some process improvements were made in 2007, with the Executive Board setting out a timetable and inviting nominations from EDs for the post of MD, and interviewing those that did apply. Nevertheless the selection processes lack transparency not least because the formal processes are to a degree detached from the substantive decision making processes, which to a large extent take place elsewhere in direct discussions between the EU, the G-7, and within the U.S. administration.
- There is no formal process for searching for candidates. The convention that candidates are proposed by the governments of their countries of origin has in the past resulted in some competent possible candidates not being put forward for a variety of reasons including domestic political factors or lack of enthusiasm by the national authorities. In the 2007 selection process this convention was broken with the Russian ED nominating a Czech national. But it remains the case that nominations can only be made by EDs, and there is no concerted search process to identify good candidates.
- The convention that only governments or the EDs representing them can make nominations has also contributed to a degree of “deal making” between national governments, trading off one international appointment against another. Within the EU the decision has become part of a wider set of explicit or implicit agreements between member states. The 2000 EU discussion, for example, was

much influenced by a feeling that it was Germany's "turn" to have a major international appointment, and that other countries had had or would soon have their turn (U.K. with NATO, Italy with the European Commission, France with the ECB).

- When there has been a choice of candidates for MD the factors determining what support each candidate gets were as likely to include those related to narrow national self-interest—which candidate is thought likely to be most helpful to a particular country or region—as judgments about competence for the job.

Of course many of these weaknesses are present also in the processes for other international appointments. The practice of horse-trading for international appointments and the notion that it is a particular country's or region's "turn" are widespread, as is the practice of the EU trying to reach agreement on a "common position" on international appointments. But some other international bodies have reformed their processes recently. Are these reforms effective and does the IMF have anything to learn from them?

Recent Changes in Processes in Other International Bodies

In the last few years the Organization for Economic Cooperation and Development (OECD), the World Trade Organization (WTO) and the Bank for International Settlements (BIS) have adopted or used new procedures for choosing new heads (Secretary General of the OECD, Director General of the WTO and General Manager of the BIS). And within the United Nations (UN) system the Secretary General has put in place new procedures for selecting heads of agencies such as the UN Development Program (UNDP).

- In the OECD the decision on the appointment of a new Secretary General (SG) is made by the Council which can meet at the ministerial or ambassadorial level. In practice the process takes place among ambassadors. In the most recent appointment process, following a reformed procedure, member countries were invited to submit candidates nine months ahead of the expiration of the term of the previous SG in May 2006. From the six names put forward, the Dean of the Council, assisted by two other ambassadors (facilitators) led a process to identify a shortlist of the three candidates best placed to win eventual consensus, looking at qualifications as well as levels of support. A subsequent round of consultations reduced the number of candidates to two, with a decision reached after a third round of consultations at which one of the two remaining candidates withdrew to permit agreement by consensus. Facilitators

made a report to ambassadors after each round of consultations. There was no attempt to search for candidates not proposed by member governments and no agreed list of desirable characteristics or experience of candidates. Candidates provided CVs, were encouraged to visit member governments, and were interviewed by ambassadors. In practice, however, few ambassadors changed their positions over what turned out to be a lengthy process, suggesting that capitals made up their minds about who to support early in the process and were little influenced by learning more about the different candidates as the process went forward. An important factor in the final decision was the agreement in the EU not to reach a common position (there were two candidates from EU countries, one of whom reached the initial shortlist of three).

- The WTO adopted a new procedure for the appointment of the Director General (DG) in 2002. It lays out a clear timeframe for a process to commence nine months before and be completed three months before the expiry of an incumbent's term. Only member countries can nominate candidates, who must be their own nationals, and nominations must be made within one month of the start of the process. There is an agreed description of the required qualifications for the post, with "the desirability of reflecting the diversity of the WTO's membership in successive appointments to the post" also an explicit factor to be taken into account. Candidates provide CVs, and meet with and make presentations to the WTO General Council. Then in the final two months of the process the Chair of the Council consults with members and seeks to build a consensus. There is a provision for the Council to vote if a consensus cannot be reached in the appointed time.
- Under the Statutes of the BIS, the Chairman of the Board of Governors proposes a candidate for the position of General Manager, to be appointed by the Board. In September 2002, the Board of Governors named a six-member committee to assist in seeking a replacement for the departing General Manager. The committee outlined a broad profile of the qualities needed for success. Three candidates were short listed and interviewed by three of the six committee members.
- In the UN the Secretary General (SG) set out a new set of procedures for appointing senior UN officials in August 2005. A Senior Appointments Group was established to review candidacies and make recommendations to the SG. For each post an interview panel is established from members of this group to review and

interview candidates and make recommendations to the SG. For appointments of the Heads of UNDP and similar agencies there is a clear job description and a list of competencies against which candidates can be judged. Shortlists are drawn up from nominations from Member states, relevant institutions and lists drawn up through an outreach process, and shortlisted candidates are interviewed. There are plans to institute a more thorough process of reference checking.

Although procedures vary, a number of elements of what might be considered current “best practice” in international appointments are present in at least one and in most case two or three of these processes.

- (a) A clear timetable for the decision, setting out the various stages of the process.
- (b) A job definition and agreed list of competencies required.
- (c) A transparent process for seeking nominations, including a procedure for identifying potential candidates not put forward by member governments (as for appointments to UN agencies).
- (d) Establishment of a small panel or group charged with developing short lists and advising on candidates, and the appointment of facilitators to help steer the process of reaching consensus.
- (e) A requirement for candidates to submit CVs, make presentations or be interviewed.
- (f) Some explicit provision for ensuring that the need to reflect the diversity of the membership can be taken into account as a factor, in the decision or in successive decisions (as in the WTO).

Of this list, (a), (b) partly, and (e) were incorporated into the 2007 process for selecting the MD. None is present in the process for appointing the FDMD. While such elements clearly improve the process and make it more orderly, it is possible to question how much difference they make to the final decision where the decision depends on positions taken by member governments. In an ideal process the most important change of all—but equally the hardest to implement—would be to achieve agreement among member governments that they would decide their positions not on the basis of nationality or region of origin of candidates, nor on the basis of mutual agreements among member states, but solely on the basis of an assessment of the qualities and competencies of each candidate and an assessment of his or her ability to do the job and command the respect of member states.

Lessons from National Public Appointments and the Private Sector

For senior national public sector appointments practice varies widely, but best current practice probably contains the following elements:

- A clear job description and set of competencies and experience required for the post.
- Public advertising of the post inviting applicants, supplemented by the use of search consultants and informal search processes.
- A committee of suitably experienced people to draw up shortlists, interview applicants and make a recommendation to the Minister or other official responsible for making the appointment.

In the private sector current practice also varies widely. However one of the reasons why current good corporate governance practice favors the creation of independent boards, separated from management, and separation of the roles of chairman of the board and chief executive, is so that the chairman, with the help of the board, can steer the process of selecting and appointing a new chief executive.

Reform Proposals for Improving the IMF Process

The most comprehensive set of proposals for improving the process for appointing the MD is contained in the April 2001 joint draft report of Fund and Bank Working Groups established to review the processes for selection of the Managing Director and World Bank President. The Fund Working Group did not consider the processes for appointing Fund DMDs. The joint report was endorsed by both Boards, and submitted formally to the IMFC, but its recommendations have not been implemented. In August 2006, in its report to Governors on quota and voice reform, the Board indicated its intention to review the matter again:

There is considerable agreement on the importance of ensuring that procedures for the selection of the Managing Director are open and transparent. The Executive Board will consider whether further steps, beyond those discussed by the Boards of the Bank and the Fund in 2001 and the steps followed for the selection of the Managing Director in 2004, are needed to ensure a fully transparent process for the selection of the Managing Director, as part of the two-year program of governance reforms.

In practice there appears to have been no further Board discussion of the issue until the discussion in July 2007 of the process to be followed in selecting de Rato's successor.

The 2001 report proposed the following elements for an improved selection process:

- As a first step EDs should decide the qualifications required of candidates (though the Fund working group saw no need to specify any); establish an Advisory Group (AG) to assist EDs in the process; and establish a clear timeframe for the process.
- The AG should be composed of eminent persons familiar with the work and goals of the Fund, supported by executive search expertise as needed. It would review all candidates and produce an assessment for the Board, using interviews and other checks as needed.
- Candidates should be nationals of a member country whether or not nominated by member countries. Candidates whose names are not formally submitted by member countries should have an indication of support or at least non-objection from their home country government.
- Using the AG's assessments, and consulting with their authorities, EDs would agree a shortlist of candidates, and modalities for publication, before proceeding to seeking to reach a consensus decision.
- There should be a two term limit for appointments.

These proposals incorporate most but not all of the elements listed above as representing emerging best practice for international appointments. One issue that they do not directly address is what nationality considerations could or should be taken into account. Instead the report addresses the issue indirectly by noting an earlier statement by the G-11 group of EDs that "a plurality of candidates representing the diversity of members across regions would be in the best interests of the Fund: the goal is to attract the best candidate regardless of nationality." In 2004 this principle was endorsed by a wider group of EDs including also those representing Russia, Australia, and Switzerland, although a follow-up press release by the G-11 acknowledged that progress on this would be slow, and emphasized other changes that would increase transparency in the process.

Other outside critics have focused attention in particular on the nationality issue and on a perceived lack of transparency in the selection process. The NGO community has focused on the need for much greater transparency in the process, with decisions made openly, rather than in closed EU sessions or by the U.S. Treasury, and with voting outcomes between IMF EDs to be disclosed; and an end to the understanding about nationalities of MD, President of the World Bank and first DMD, so that the posts

would be open to all comers. NGO submissions to member governments call for a wider geographical representation in the top posts in the Bank and Fund, and regret the decision in 2004 not to implement the recommendations of the 2001 working group of EDs. The July 17, 2006 statement by a large group of European CSOs is typical:

The Managing Director and Deputy Managing Director of the IMF play an important role in defining the direction of the institution. The convention of European countries nominating the IMF Managing Director while the USA nominates the World Bank President and the IMF First Deputy Managing Director is unacceptable.

We demand the introduction of a transparent and democratic process for selecting the heads of multilateral organizations. This should involve all member countries equally and significant stakeholder groupings, and assess candidates on merit, regardless of their nationality. Geographical diversity in top positions should be actively encouraged. Such reform would only be significant if accompanied by ending the inequity in decision making so that all member governments can effectively participate in the selection process.

Similar statements by NGOs were issued ahead of the most recent appointment of a new President of the World Bank and again ahead of the selection of Strauss-Kahn.

Recent MD and World Bank President Appointments

The required speed of decision taking was given as a reason for not implementing the procedures proposed in the 2001 draft report after Köhler's resignation in 2004. This was not however a factor in 2007, and it seems likely that concern to maintain the long standing nationality convention explains the reluctance of the European countries and the U.S. to implement more than a few of the 2001 recommendations in subsequent selection processes in the Fund and Bank. In the event in 2004 several non-European candidates were nominated of whom one allowed his name to go forward, but the outcome—selection of the EU nominee with support from other G-7 countries—was never in doubt. Similarly, the candidate suggested by the U.S. in 2005 for President of the World Bank was accepted by all, after a process of consultation, in that case with no other candidate emerging. For the latest appointment of World Bank President, in June 2007 there were some minor improvements in procedure: Bank EDs specified the qualities needed for the post, invited applications and set out a clear timetable for the process including a provision for inter-

viewing candidates, and invited nominations. But again there were no nominations other than the candidate put forward by the U.S., who was duly appointed on June 30, 2007. As already noted, Fund EDs implemented similar procedural improvements for the latest MD selection process—but again the selection of the candidate agreed by EU finance ministers was never in doubt.

Possible Ways Forward

For the future EU member states have indicated a willingness to reform the selection process and end the convention that the MD be a European. Speaking at the October 20, 2007 meeting of the International Monetary and Financial Committee (IMFC) as Chairman of the EU Council of Economic and Finance Ministers, Minister Fernando Teixeira dos Santos said:

EU member states welcome the appointment of Dominique Strauss-Kahn as Managing Director of the IMF and look forward to working closely with him. They are willing to discuss the criteria and the procedure for the selection process of the Managing Director as part of a broader reform including top management from other international financial institutions.

Although there has as yet been no similar statement by the U.S. in respect of the posts of IMF FDMD or President of the World Bank, there does therefore appear to be some possibility of improving the process in future.

An obvious starting point for reform is to implement in full all the recommendations of the 2001 Working Group in respect of the appointment of the next MD. The Advisory Group would identify and assess a number of candidates from all regions, and help EDs produce a shortlist, from which a choice would be made in the usual way. There would need to be parallel changes in the arrangements for appointment of the FDMD who would no longer be a U.S. nominee, and possibly of all three DMDs, perhaps on the lines of the new procedures put in place for senior UN appointments—with a panel set up to identify candidates and make recommendations to the MD—while also providing for suitable consultation with EDs.

An end to the current nationality convention could require a further addition to the 2001 proposals if it were desired to retain some way of ensuring that all regions have a chance to be represented among senior managements of the two Bretton Woods institutions. This could take the form of the qualification used by the WTO—a statement that in decisions about the leadership of the Fund and Bank it will be desirable to ensure representation of the diversity of the membership in successive

appointments. An alternative approach might be an agreement that the top management structures of the two institutions (MD and DMDs in the Fund, President and MDs in the Bank) should between them always reflect the diversity of membership.

A few further additions to the 2001 recommendations would seem desirable, including the following:

- At the start of the process EDs should agree a job description as well as a list of the qualities/competencies candidates are expected to have.
- Towards the end of the process the Board or a Board committee might be given the opportunity to interview candidates, as occurred with the 2007 selection process.
- It might also help if all member countries explicitly undertook to support the candidate they considered best equipped to lead the institution—thereby implicitly stating that they would not to allow other considerations affect their choice. Such a declaration could act as a partial counterweight to pressures to support particular candidates on other grounds, for example regional or political solidarity.

Experience of the last few years suggests that the best time to discuss and agree such reforms, especially if they are to entail parallel changes at other IFIs, as proposed by the EU, is a time like the present when no immediate appointments are in prospect. Finally, good practice elsewhere suggests the time may have come to systematize and increase transparency in the process for appointing not only the FDMD but all three DMDs, while leaving the final decision to the MD, perhaps on the lines of the new procedures put in place for senior UN appointments—with a panel set up to identify candidates and make recommendations to the MD—while also providing for suitable consultation with EDs.

References

- Bank for International Settlements, 2002, “Committee to Aid Search for New BIS General Manager.” Available via the Internet: www.bis.org/press/p020910.htm.
- Bretton Woods Project, 2006, “European CSO Open Statement on Governance Reform of the IMF,” July 17. Available via the Internet: www.globalpolicy.org/soecon/bwi-wto/imf/2006/0717csostatement.htm.
- Engelen, Klaus C., 2003, “Big Unease at the Tower of Basel,” *International Economy*, March 22.
- International Monetary Fund (IMF), 1992, *Articles of Agreement of the International Monetary Fund* (Amended) (Washington). Available via the Internet: www.imf.org/external/pubs/ft/aa/index.htm.

- , 2004a, “Statement by the G-11 Executive Directors of the IMF on the Selection Procedures for Appointing the IMF Managing Director,” May 19 (Washington).
- , 2004b, “Statement by the G-11 Executive Directors of the IMF on the Selection Procedures for Appointing the IMF Managing Director,” May 31, Press Release No. 04/64 (Washington).
- , 2006, “Quota and Voice Reform in the International Monetary Fund: Report of the Executive Board to the Board of Governors,” DEC/13771 (Washington).
- Kahler, Miles, 2001, *Leadership Selection in the Major Multinationals* (Washington: Institute for International Economics).
- Organization for Economic Cooperation and Development (OECD), “Selection of a New Secretary-General of the OECD” (Paris). Available via the Internet: www.oecd.org.
- United Nations, 2005, “Measures to Strengthen Accountability at the United Nations: Report of the Secretary-General,” A/60/312, August 30 (New York: United Nations).
- World Bank and International Monetary Fund, 2001, “The Bank Working Group to Review the Process for Selection of the President and the Fund Working Group to Review the Process for Selection of the Managing Director Draft Joint Report,” April 25 (“Joint Report on the Process for Selection of the Managing Director”) (Washington).
- World Trade Organization (WTO), 2003, “Procedures for the Appointment of Directors-General,” WT/L/509, January 20 (Geneva).

This page intentionally left blank

III

Fund Governance in Action

This page intentionally left blank

12

IMF Surveillance: A Case Study on IMF Governance

BIAGIO BOSSONE

Purpose and Scope of the Case Study

Central to the purposes of the IMF (the “Fund”) is oversight of the international monetary and financial system. The Fund’s Articles of Agreement direct the institution to exercise firm surveillance over the exchange rate policies of its member countries. To carry out this mandate, the Fund typically analyzes the appropriateness of each country’s economic and financial policies for achieving orderly economic growth, and assesses the consequences of these policies for other countries and for the global economy.¹

While the objectives of surveillance remain unchanged, its scope has been broadened in response to changes in the world economy. New tools of economic analysis became necessary after the demise of the Bretton Woods system of fixed exchange rates gave countries greater scope for discretion in national policymaking. The same happened following the

The preparation of this case study benefited from very helpful advice and coordination assistance by Leonardo Martinez-Diaz. Roxana Pedraglio provided excellent research assistance. Comments were also received from participants at the IEO Workshop on the Evaluation of IMF Governance, October 23–24, 2007, Washington. The author wishes to thank the officials who made themselves available for interviews.

¹The modalities of Fund surveillance currently in use are succinctly described in Public Information Notice 04/95 of the Fund’s Executive Board, of August 24, 2004: “The IMF fulfils this [surveillance] mandate through bilateral, regional, and multilateral surveillance. In accordance with Article IV of its Articles of Agreement, the main instrument of bilateral surveillance is consultations, normally held every year, with each of the Fund’s members.

dramatic growth of international capital flows and the attendant explosion of external debt. Surveillance now takes account of the interrelationships of a growing set of policy objectives and instruments, and has come to encompass microeconomic and institutional aspects of economic reform.

The adaptation of IMF surveillance results from the continual interaction among the governing bodies of the Fund—the Executive Board (the “Board”), Management,² and the International Monetary and Financial Committee (the Interim Committee, prior to 1999)—as well as among the Fund and the intergovernmental entities engaged in the governance of international monetary affairs and finance. Assessing how such interactions affect the adaptation and the effectiveness of surveillance is important for making judgments on the effectiveness of the Fund’s governance.

This study addresses three general issues: (1) how Fund governance has affected the adaptation of surveillance, (2) the role that the Fund’s governing bodies have played in the conduct of surveillance, and (3) the ways in which Fund governance can be improved to make surveillance more effective. The paper considers how global financial governance interacts with Fund governance to influence the Fund’s efficacy in fulfilling its surveillance mandate. In particular, it examines the way global governance defines the scope and boundaries of Fund governance in exercising surveillance.

The study covers the period from the mid-1990s onward, which has been a formative one for the policy agenda of the international financial community and its mechanisms of governance. In the economic arena, national actors emerged who have increasingly shared in global governance responsibilities. A growing number of national or regional policies have been seen to produce unintended global consequences that demand coordinated policy

These consultations are complemented with regular analysis of economic and financial data provided by members and, as needed, informal contacts between the Fund and national authorities. At the regional level, the IMF holds regular discussions with the economic institutions of currency unions and participates in the activities of regional bodies. The pillars of the Fund’s multilateral surveillance are the *World Economic Outlook* report and the *Global Financial Stability Report*, which are produced twice a year. The reports are complemented by more frequent, informal reviews of global economic and market developments.” Comprehensive information on Fund surveillance is available on the IMF’s website at www.imf.org. Extended treatments of surveillance, from institutional and historical perspectives, are offered by Guitián (1992), James (1995), Masson and Mussa (1995), and Boughton (2001). For a short and effective discussion of the legal basis of surveillance, see IEO (2006). For a recent discussion of political economy aspects of Fund surveillance, see Lombardi and Woods (2007).

²Fund Management” denotes the Managing Director, the First Deputy Managing Director, and two Deputy Managing Directors.

responses from the international community. More generally, the international community has come to recognize that a world economy dominated by integrated markets, and with countries at different levels of economic and institutional development, requires a system of global though non-binding rules of conduct, internationally promulgated and nationally implemented.

The information sources used for the study include IMF documents (annual reports, internal and external review reports, minutes and summing-up reports of Board discussions), communiqués and public statements of relevant entities, reports and studies of international organizations, and IEO interviews with officials from national governments, international institutions, and the Fund.

The study is organized as follows. The next section describes how international economic surveillance has evolved over time; it analyzes the pressures from world events and the international community and the Fund's responses. The third section evaluates how Fund governance has worked in adapting surveillance policy, and the fourth section proposes measures to enhance the role of the governing bodies of the Fund in adapting surveillance and ensuring its effective implementation.

IMF Surveillance: A History of Continuous Adaptation

Broadening the Scope of Surveillance Since the Collapse of Fixed Exchange Rates

The introduction of surveillance as an explicit component of the Fund's mandate was the product of adapting the Fund's mandate to the post-Bretton Woods order. With the abandonment in the early 1970s of the par value system, and the 1978 amendment of the Articles of Agreement, decisions on a member country's exchange rate moved into the domain of domestic policy. The international system shifted from rules to discretion, and the responsibilities of the Fund changed from those of guardian to those of overseer of members' policies. The introduction of surveillance represented an attempt to ensure that the international community would continue to exert discipline on exchange rates, even in the absence of hard rules. Under the Fund's amended Article IV, surveillance was to involve a continual exchange of information between the Fund and its members, culminating periodically in bilateral consultations. The new surveillance process was intended to provide an instrument of policy dialogue, persuasion, and peer pressure—in lieu of prescription—that would produce

domestic economic conditions that would serve members' self-interest and contribute to international stability and prosperity.

The Fund's responsibilities in this new process were more complex than in the Bretton Woods days. In the new discretion-based system, preserving orderly economic and financial conditions required that members' external payments positions be sustainable. This implied that each country should make active use of domestic macroeconomic and structural policies to ensure the viability of the balance of payments over the medium term. As a result, the line between domestic and external policies became blurred and the scope of Fund surveillance broadened. To assess the medium-term external position of the economy called for analyses of market, industrial, and competition policies, as well as macroeconomic diagnostics. Re-drawing the boundaries of Fund surveillance became complicated and open to judgment.

Over the 1980s and early 1990s, the growing complexity of the world economy compounded the difficulties of effective surveillance. First, an impressive increase in international capital flows expanded the opportunities for investment and saving globally, but ultimately led to a severe debt crisis that strained the fabric of the international monetary and financial system. The strategy that was adopted in response eliminated the systemic threat, but left the tasks of restoring and preserving normality to capital flows as critical global concerns. Surveillance by the Fund had to devote increased attention to international capital markets and to reflect a better understanding of their dynamics and policy implications. Subsequently, the integration of the transition economies within the international system stretched the scope of surveillance even further, well into the realm of structural issues such as public enterprise reform, privatization, and administrative, judicial, and civil service reform. Other changes that challenged the Fund in its oversight of the international monetary and financial system were its substantially enlarged membership, a record number of countries accessing Fund resources, and major moves toward regional integration in Europe, America, and Africa.

Since the mid-1990s, the scope of surveillance has expanded further in response to pressure by important stakeholders to look beyond macroeconomic policy and into areas like poverty reduction, social protection, and sustainable development. Other factors include the growing consensus about the importance of supply-side factors for economic stability and growth; the increased risk of financial crises and contagion in a world of integrated capital markets; the vulnerability of financial systems to criminal abuse; and the emergence of global economic imbalances caused by inconsistent national economic policies.

The reason Fund surveillance has come to be concerned with all these factors lies in the Fund's unique features: its near-universal membership, its

mechanism of regular and mandatory consultations with all its members, and its organizational efficacy (IMF, 1999). Because of these features, and although the Article IV consultation was originally intended only to cover a narrowly defined set of macroeconomic issues, the international community directed the Fund to adapt surveillance beyond its core mandate.

Overlapping Forums for Surveillance

The fact that surveillance has not been an exclusive prerogative of the Fund has affected the way the Fund has governed and implemented surveillance. As early as the early 1960s, with the creation of the Fund's General Arrangements to Borrow, which they would finance, the Group of Ten (G-10) became a leading forum for discussing international monetary matters. The G-10 felt that conducting multilateral surveillance within a small group, rather than at the Fund Board, would help the relevant policymakers to address the necessary issues. This practice achieved important results, but it also created deep resentment among the Fund's non-G-10 members, and was a factor behind the polarization between the industrial (creditor) countries and the developing (borrowing) countries, which has since become a distinctive feature of the Fund.³

Following the breakdown of the par value system, the U.S. pushed to bring the reform debate back into the Fund. The Ad Hoc Committee on Reform of the International Monetary System (Committee of Twenty) comprised of IMF Governors—was created in 1972, with representatives from the same constituencies as the Executive Board and in a position to make decisions on behalf of governments. Among other things, the Committee proposed tasking the Fund with new surveillance responsibilities over exchange rate policies. Among the Committee's legacies was the creation in 1976 of the Interim Committee (IC) of the Governors of the Fund.

Starting in the late 1980s, the new center of action became the finance ministers and central bank governors from the five (later seven) larger industrial countries known as the G-5 (later the G-7). The rationale was, again, that it was easier to resolve things within a small group. The G-5/7 customarily invited the Managing Director of the Fund (the "MD") to attend its meetings in "his personal capacity" rather than as

³The creation of the Intergovernmental Group of Twenty-Four (G-24) was a response by developing countries to the perceived exclusion and the loss of voice and influence caused by the establishment of the G-10.

representative of the institution (Boughton, 2001: 190–200).⁴ The MD would make a presentation on major economic developments and leave the room as the group began its policy discussions. Later on, as a basis for policy discussions, the Fund was asked to draft confidential surveillance notes for the group, on international economic and market developments and prospects. The G-7 acquired much greater traction on Fund issues than did the IC or its successor the International Monetary and Finance Committee (IMFC). It has involved itself heavily in the oversight of the international monetary and financial system, directing the Fund on adapting its surveillance function. The group has identified new Fund initiatives, defined their broad outlines, and mobilized the political and financial support to carry them forward.⁵

The IC developed a prominent role in the governance of the Fund, but it was not effective in surveillance of industrial countries. This failure reflected the determination of G-7 countries to keep these issues to themselves (Van Houtven, 2002). In 1994, the IC attempted to strengthen its leadership of multilateral surveillance through its Madrid Declaration on Cooperation to Strengthen the Global Expansion, which was broadened in 1996 with the Partnership for Sustainable Global Growth.⁶

Mexico Blues: The Cry for Transparency

The Fund entered the 1990s with the clear understanding that the external changes it was confronting demanded significant adaptations of its surveillance function, and showed a strong resolve to take the needed action. In 1993, at the conclusion of the periodic review of surveillance policy, the Fund's Board agreed that surveillance needed strengthening, especially in anticipation of the risks that macroeconomic imbalances and exchange rate misalignments in the industrial countries might pose in the context of growing and increasingly integrated international capital

⁴Some members of the Board criticized this practice, suggesting that the Managing Director should participate as Chairman of the Board, representing the view of Fund membership and reporting back to the Board. See "Future Orientation of the Fund—Making Multilateral Surveillance More Effective, and Observation and Issues Concerning International Policy Coordination" (Minutes of Executive Board Meeting 94/89, 11/ 22/1994).

⁵For a comprehensive historical account of the role of the G-7 in international economic and financial cooperation, see Kenen and others (2004).

⁶See Communiqué of the Interim Committee of the Board of Governors of the International Monetary System (henceforth, "IC Communiqué"), October 2, 1994, Madrid, and September 29, 1996, Washington.

markets.⁷ The Board endorsed new measures to make surveillance more continuous, timely, and flexible; and it approved the extension of the enhanced surveillance procedures that had been agreed eight years earlier.⁸ The Board agreed to expand the scope of its discussions on exchange rates and financial market developments and to ensure their integration into surveillance. The Board also promoted efforts to involve Fund Management more closely in deliberations affecting the functioning of the international monetary system. The IC wanted greater involvement in surveillance, and at its meeting in October 1994, it requested the Board to prepare a report on strengthening Fund surveillance.⁹

Yet both the resolve and the actions taken proved inadequate when surveillance failed to warn of the impending crises in Europe (in 1992) and Mexico (1994–95) or their potential systemic implications (Mussa, 1997; IMF, 1995). The serious financial difficulties that hit Mexico revealed major weaknesses in the way surveillance had been conducted by the Fund, despite the overall progress that had been made in the policy framework.¹⁰ These weaknesses included a reluctance of some authorities to engage the Fund in a meaningful policy dialogue, inadequate integration of outside views into Fund analysis, and an organizational culture that discouraged independent thinking. These issues raise important governance concerns which are discussed in the next section below.

The MD was anxious to draw lessons for the Fund and its members (Van Houtven, 2002). In early 1995, following the conclusion of biennial review of surveillance the Board agreed to new procedures for a more continuous policy dialogue with members, stricter standards of transparency for member countries, closer scrutiny of capital account phenomena and domestic financial sectors (especially for countries that were seen to be at risk, and where financial tensions were likely to spill over to other countries), and more candid surveillance. The Board also amended the 1977 Decision on Surveillance to take account more explicitly of the role of private capital flows.¹¹

⁷See “Summing Up by the Acting Chairman—Biennial Review of the Fund’s Surveillance Policy” (SUR/93/15, February 3, 1993).

⁸The Fund’s enhanced surveillance policy and procedures were elaborated in 1985, in response to the request of some members for intensified monitoring without a Fund arrangement in place. See “The Role of the Fund in Assisting Members with Commercial Banks and Official Creditors” (EBS/850173, July 23, 1985, and Sup. 1, August 13, 1985).

⁹See IC Communiqué, Washington, October 2, 1994.

¹⁰See “Report of the Executive Board to the Interim Committee on Strengthening Fund Surveillance” (SM/95/70 Revision 3, April 20, 1995).

¹¹See Decision No. 10949-95/37, adopted on April 10, 1995.

In its 1995 spring meeting communiqué, the IC endorsed the Board's decisions, reaffirming its intention to reinforce its own role in international policy coordination. It requested the Fund to review progress in implementing policies under the 1994 Madrid Declaration, and called for a six-month review of the policies implemented by members in the context of Fund surveillance. It also requested a report on members' cooperation with data provision requirements. But while the IC regarded the six-month review process as a useful bridge between its surveillance role and the Board's regular work on bilateral surveillance, no mechanisms had been envisaged to enable it to take remedial action if members did not cooperate. Thus the review process had no practical consequences, and the IC's conclusions did not add much substance to those of the Board. Nor did they have any "teeth" for inducing member countries to engage more responsibly in policy coordination.

Providing the IC with better information on bilateral surveillance was the subject of a very interactive Board meeting later in 1995, at which a number of useful procedural issues were agreed on the initiative of the MD.¹² The six-month reviews were broadened to include an assessment of policy performance under Article IV, and an indication of the issues that had surfaced most frequently in country surveillance discussions. But no attempt was made to clarify how the IC could strengthen its handling of international policy coordination.

Following the Mexico crisis, the G-7 acquired a leading role in setting the international financial policy agenda. The preparation for the Halifax Summit, in June 1995, perhaps marked the beginning of a new phase of activism by the group in the governance of global finance. The Halifax Summit communiqué set out a number of elements to deal with the policy challenges at hand, including early warning systems and appropriate policy responses (G-7, 1995). Besides emphasizing that the backbone of effective surveillance is the availability of timely and comprehensive data, the G-7 requested the Fund to enact specific procedures to improve the transparency standards of members. These proposed procedures were more rigorous than those that had been stipulated by the

¹²See "Statement by the Managing Director on Modalities for Review of Implementation of Madrid Declaration and Member Country Policies in the Context of Fund Surveillance" (BUFF/95/126, November 29, 1995); "Concluding Remarks by the Chairman-Managing Director on Modalities for Review of Implementation of Madrid Declaration and Member Country Policies in the Context of Fund Surveillance" (BUFF/96/4, January 19, 1996); and "Modalities for Review of Implementation of Madrid Declaration and Member Country Policies in the Context of Fund Surveillance" (EBM/95/115; December 6, 1995).

Fund Board and endorsed by the IC some time earlier.¹³ The G-7 also identified specific areas where Fund surveillance needed strengthening, especially with regard to countries that had a potentially large impact on the world economy. It called for the MD to play a greater role, and for members to engage in a more intense policy dialogue with “problem” countries, and demanded that the Fund be more open and transparent in its assessments and policy advice (IMF, 1996).

The G-7 urged the Fund to consider extending existing current account convertibility obligations to capital account transactions¹⁴ and simultaneously put pressure on the Fund to broaden its surveillance over domestic financial sector and capital flows issues—a move that the MD strongly supported. In late 1995, the Board reviewed the experience of Fund members with capital account liberalization, and discussed the role of the Fund in promoting currency convertibility. The Board agreed that capital account convertibility was desirable but emphasized the need for strong and well-supervised domestic financial sectors as a necessary precondition, and argued for a stronger role of the Fund in promoting and assisting the improvement of prudential regulatory systems in member countries.¹⁵ In early 1996, the Board considered the relationships between banking system soundness and macroeconomic and structural policies, and started discussing ways in which issues in bank soundness could be incorporated into Fund surveillance.

Even before the Mexico crisis, developing countries—through the G-24—had expressed their concern with the unstable exchange rates and risks of highly volatile short-term capital flows that were associated with financial globalization. They emphasized that the Fund could help to reduce these risks by strengthening its surveillance of the policies of industrial countries. Noting the proposals discussed by the Board in the aftermath of the Mexico crisis, they insisted on the need for intensified and symmetrical surveillance of the policies of industrial and developing countries alike. And they repeated their earlier proposal that any evaluation of the functioning of the system should involve the participation of

¹³The G-7 was quite effective in accelerating the establishment of the Special Data Dissemination Standard (SDDS) for members having or seeking access to capital markets and, later on, of the General Data Dissemination System (GDDS) for members that are not in a position to subscribe to the SDDS and need to further develop their statistical systems.

¹⁴See G-7 (1995).

¹⁵“Capital Account Convertibility: Review of Experience, and Implications for Fund Policy” (EBM/95/73, July 28, 1995). The staff papers on which the Board discussion was based were subsequently published (see Quirk and Evans, 1995).

the developing countries—along the lines of the Committee of Twenty in the early 1970s—to ensure its effectiveness and legitimacy.¹⁶

Developing countries reiterated their calls for participation on several occasions, concerned as they were that decisions taken without their participation would neglect their interests. This concern was evident, for instance, during the Fund's discussions to integrate financial sector analysis into surveillance. Similarly, in discussions of capital account liberalization, developing countries cautioned against considering amending the Fund's Articles of Agreement before resolving issues that they considered sensitive, such as the possibility of reintroducing restrictions on capital movements under specific circumstances, or that of introducing safeguards and transitional arrangements.

In concluding the 1997 review of Fund surveillance policy, the Board acknowledged the Fund's role in supporting international efforts to promote the acceptance and implementation of sound banking principles and practices, in close cooperation with other international institutions and bodies. It endorsed the need to raise the attention given to regional surveillance, especially in consideration of the upcoming transition toward European Monetary Union. And, to enhance the Fund's transparency, the Board agreed to release press information notices following the conclusion of Article IV consultations with members.¹⁷

By the end of 1997, gradual progress was reported on members' data provision to the Fund. The Board urged members to place greater emphasis on the quality and integrity of data, since both had a major bearing on the Fund's ability to conduct effective surveillance.¹⁸

¹⁶See Intergovernmental Group of Twenty-Four on International Monetary Affairs, Communiqué (henceforth, "G-24 Communiqué"), issues of October 1, 1994; April 25, 1995; October 7, 1995; April 21, 1996; September 28, 1996. Available via the Internet: www.g24.org.

¹⁷See "Summing Up by the Chairman—Biennial Review of the Implementation of the Fund's Surveillance over Members' Exchange Rate Policies and of the 1977 Surveillance Decision" (SUR/97/38, April 3, 1997). On Fund transparency, the Board found itself weighing the merits of two legitimate roles—that of confidential policy advisor to members, on one hand, and that of public monitor on the other—that were both strongly supported in the Board (see "Members' Policies in the Context of Fund Surveillance—Review," EBM/96/84, September 9, 1996).

¹⁸See "Summing Up by the Acting Chairman—Progress Report on the Provision of Information to the Fund for Surveillance" (Executive Board Meeting 97/117, December 8, 1997).

Lessons from Asia: The Need for Better Standards and Governance

In early 1998, in response to a request from the IC,¹⁹ the Board examined the unfolding Asian crisis to understand its origin and consequences, as well as the Fund's failure to predict them. The staff provided a candid analysis of shortcomings in Fund surveillance and made recommendations for adapting it accordingly.²⁰ Whereas the Mexican crisis had shown a lack of transparency to be the single most critical factor, the Asian crisis emphasized the need to pursue international standards of sound policies and good economic conduct at the country level.

The analysis also pointed to the importance of developing standards in a variety of areas that could assist in the exercise of surveillance.²¹ The international community looked to the Fund to take the lead in promoting and monitoring the implementation of standards, as an outgrowth of its surveillance mandate. Countries would, it was hoped, adopt standards with a view to strengthening their financial systems and promoting good governance, thus enhancing accountability and policy credibility. The adoption of standards would facilitate investors' decisions to allocate resources by providing them with information on countries' actual practices vis-à-vis agreed benchmarks.

While the Fund experimented with the observance of standards in a number of pilot country cases, an internal debate developed about the appropriate role for the Fund in dissemination of standards.²² The Board agreed that monitoring countries' observance of international standards would encourage members to improve their adherence to the standards and that this should be done through the Article IV consultation process. Bridging a broad range of positions, the Board decided on the appropriate coverage of standards, and defined the modalities of the Fund's involve-

¹⁹See IC Communiqué, September 21, 1997, Hong Kong SAR.

²⁰See "Review of Members' Policies in the Context of Surveillance—Lessons for Surveillance from the Asian Crisis" (EBS/98/44, March 9, 1998).

²¹The Board listed five main needs for effective surveillance: more timely availability of accurate information from members; broader focus of surveillance beyond the core short-term macroeconomic issues; closer attention to international policy interdependence; greater transparency; and willingness of members to take Fund advice. See "Summing Up by the Acting Chairman—Members' Policies in the Context of Surveillance—Review—Lessons from the Asian Crisis" (SUR/98/39, April 1, 1998).

²²See "Summing Up by the Acting Chairman—International Standards and Fund Surveillance" (SUR/98/95, July 30, 1998); "Summing Up by the Acting Chairman—International Standards and Fund Surveillance—Further Issues" (SUR/99/42, March 31, 1999); and "Summing Up by the Acting Chairman—International Standards and Fund Surveillance—Progress and Issues" (SUR/99/112, September 20, 1999).

ment in reporting on compliance.²³ The Board decided to monitor the new activity through periodic reviews.

Consistent with this standards-based approach to promoting accountability and policy credibility was a new emphasis on good governance. In 1997, the Board endorsed the Fund's involvement in this area noting that the Fund should focus on the economic aspects of governance, mainly in two areas: improving public resource management and supporting a transparent regulatory regime. In addressing governance at the country level, the Fund was to be guided by an assessment of whether the issues in question had any actual or potential impact on macroeconomic performance. Developing and emerging market countries stressed that, in following these principles, the Fund should strictly adhere to its mandate and stand ready to provide assistance to help members meet the requirements of the principles. The staff produced guidelines addressing the Fund's role in governance issues. In adopting the guidelines, the Board stressed the Fund's mandate did not allow it to act as an investigation agency and asked that the legal boundaries of Fund action in this area be clearly defined.²⁴

Transparency was a necessary underpinning of the move toward improved standards and good governance. In April 1998, the Board agreed on a draft Code of Good Practice in the Area of Government Budgetary Operations, subsequently endorsed by the IC.²⁵ The draft discussed modalities through which the Fund could use its surveillance, technical assistance, and program design to help members achieve greater fiscal transparency.²⁶ In a similar process a year later, the Fund produced the Code of Good Practices on Transparency in Monetary and Financial Policy: Declaration of Principles as a guide to members. In addition, it agreed to the public release of staff reports and country policy documents.

Developing member countries, while supporting the process to increase transparency, emphasized their concern that the release of staff reports

²³The areas to be covered by standards were data dissemination, fiscal transparency, monetary and financial transparency, banking supervision, securities regulation, insurance regulation, accounting, auditing, bankruptcy, and corporate governance. Later, the list came to include payments and settlement systems.

²⁴See "Concluding Remarks by the Chairman—The Role of the Fund—Governance Issues—Guidance to Staff" (SUR/97/48, May 21, 1997). The guidelines were published as *Good Governance: The IMF's Role*, available at www.imf.org.

²⁵See IC Communiqué, April 16, 1998, Washington.

²⁶See "Concluding Remarks by the Acting Chairman—Draft Code of Conduct on Fiscal Transparency" (BUFF/98/40, April 3, 1998).

could compromise the quality and candor of the policy dialogue with the Fund, thereby undermining the effectiveness of surveillance. They underlined the need to apply transparency criteria not only to public institutions, but also to the private sector, and emphasized the need to enhance transparency in the working of private financing entities, especially those that are highly leveraged. They argued that countries at different stages of development needed different timeframes for implementing the new standards and that some countries would need technical assistance.²⁷ Discussing the code for fiscal transparency, Directors from developing country constituencies claimed that the areas covered were too broad and were concerned that the code would become a standard against which fiscal transparency would be formally assessed.

During this period, working groups of the G-7 and selected emerging market countries were established to implement recommendations in the key areas of transparency, strengthening financial systems, and crisis management, with the involvement of the private sector. Following detailed discussions in a variety of forums, the G-7 agreed on a set of specific reforms to increase the transparency and openness of the international financial system, disseminate standards and codes of best practice, and strengthen both the incentives to meet these standards and the official assistance made available to help developing countries reinforce their financial systems.

Developing countries broadly endorsed this international agenda, but were concerned about being sidelined from the global decision-making process. Supporting the need to strengthen international cooperation, the G-24 proposed that a task force comprising industrial and developing countries be set up to reform the international monetary and financial system.²⁸ The group reiterated this proposal several times, but to no avail.

To take a fresh look at the surveillance process, in 1999, the Board commissioned an independent evaluation by a group of external experts. This evaluation cast doubt on the Fund's capacity to carry out bilateral surveillance of structural issues of a non-financial nature; it also highlighted the very limited attention that bilateral surveillance gave to the international dimension of a country's macroeconomic and financial situation, and the

²⁷See "Summing Up by the Acting Chairman—Transparency in Members' Policies and Fund Surveillance" (SUR/98/91, July 27, 1998), and IC Communiqué, Washington, April 26, 1999, and September 26, 1999.

²⁸See Caracas Declaration II of the Group of Twenty-Four (G-24), February 7–9, 1998. www.g77.org/doc/Caracas%20Declaration.html.

inadequate cross-fertilization taking place between bilateral and multi-lateral surveillance. Importantly, the evaluation noted a lack of focus by the Board in Article IV discussions, and the Board's limited ownership of surveillance priorities. The evaluation also found that the Fund faced some internal organizational, management, and staffing challenges that had an impact on surveillance (IMF, 1999). As before, questions were asked about why the Board had failed to see many of these weaknesses, despite its continuous oversight, and why it dismissed criticisms so easily, especially those that concerned its own role.²⁹

In 2000, the Board endorsed the conclusions of the biennial review of surveillance. The conclusions were that, since the Asian crisis, the Fund's work had advanced in several important areas, providing deeper analytical coverage of exchange rate policies and a greater emphasis on financial sector analysis and on capital account and cross-country issues. Private market views, where relevant, were increasingly being discussed in staff reports. The Fund had made progress in integrating multilateral and bilateral surveillance; and multilateral surveillance had been significantly broadened, to give more attention to potential spillover and contagion effects. Overall, the Board agreed that the tools for preventing crises had been strengthened.

According to the 2000 biennial review, in light of the growing complexity of the international financial architecture and its reflection on surveillance, an important area that needed to be addressed was how to draw on the expertise and resources of other institutions in order to achieve better coverage of both core and non-core issues. Regarding the focus of surveillance, the Board identified a hierarchy of concerns, to be adapted to country circumstances and over time, that would help Fund staff identify the right focus and priorities for its surveillance activities.³⁰

Turning Millennium: The Long March Toward “Soft Law”

The newly-formed IMFC recognized that Fund surveillance was the principal mechanism through which the results of many initiatives to strengthen the international monetary and financial system would

²⁹See “Summing Up by the Chairman—Report of External Evaluators on Fund Surveillance” (SUR/99/108, September 10, 1999).

³⁰See “Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision” (SM/00/40, February 18, 2000); and “Summing Up by the Acting Chairman—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision” (SUR/00/32, March 21, 2000).

come together, including primarily in the areas of standards and governance.³¹ Surveillance subsequently evolved along two related paths: developing standards, principles, and guidelines; and preventing crises. The underlying rationale was that standards of sound policy and codes of good economic conduct would foster better economic performance in member countries (especially in systemically relevant economies with still rudimentary economic institutions), help them fend off crises, and thereby contribute to global financial stability. In other words, the international community would move toward a system of “soft law” (although the Fund did not use this terminology, to the author’s knowledge), whereby the adoption of standards and codes would be voluntary, yet subject to strong encouragement from the international community through peer pressure, public monitoring and, possibly, market discipline.

During this period much of the Fund’s internal debate and deliberation was about how to design soft law in ways that members would accept, and that would induce positive changes in economic conduct. Once designed, rules had to be implemented, and compliance monitored. The importance of systematically collecting information on compliance and of appropriate follow-up recommendations to national authorities was recognized. The Fund invested significant resources in refining its assessment and policy advisory machinery. For this purpose, it developed the Reports on Observance of Standards and Codes (ROSCs). A significant extension of this work, and of the associated assessment activity, took place in 2001 with the introduction of standards for fighting international money laundering and combating the financing of terrorism.³²

While progress was achieved, the intense negotiations in the Board reflected wariness and distrust among developing and emerging market countries which lamented that their participation in the development of standards and codes had been limited.³³ They were concerned that “soft law” would become “law” *tout court*, implying new obligations that would be enforced asymmetrically and to their detriment. They took the view that standards should not extend beyond the core areas of Fund responsibility and should not be prematurely integrated into the Article IV consultation process, and that the observance of standards should not be

³¹See Communiqué of the International Monetary and Financial Committee of the Board of Governors on the International Monetary System (henceforth, “IMFC Communiqué”), Prague, September 24, 2000.

³²See IMF (2003: Chapter 2).

³³See G-24 Communiqué, September 23, 2000.

incorporated in program conditionality.³⁴ They were concerned that the Fund would surrender its cooperative mission and transform itself into a policing institution with a compliance-based culture. Perhaps because of this concern, Fund members were unable (or unwilling) to agree on adopting an effective monitoring system.³⁵

The Fund continued to develop analytical tools for assessing vulnerability to crises, and strengthened its efforts to incorporate the views and developments of international financial markets into surveillance. The establishment in 2001 of the International Capital Markets Department (ICM) and the Capital Markets Consultative Group aimed to respond to these challenges. As the importance of financial sector analysis and the need to integrate it effectively into surveillance came to be more deeply appreciated, Management commissioned ad hoc external reviews of aspects of financial sector surveillance in order to strengthen its effectiveness.

The Board kept up its pressure to improve Fund surveillance through a tight review process.³⁶ In 2002–03, much attention focused on refining the tools for assessing vulnerability to crises and on improving assessments of standards and codes. Staff reviews brought in new dimensions, such as the importance of analyzing political economy issues, the need to integrate insights from cross-country experience more systematically, and questions of

³⁴As regards the risk of asymmetric implementation, in a 2003 progress review of the standards initiatives the Board noted that, while most systemically important countries were participating in the initiatives, industrial countries needed to step up their participation rate to achieve more balanced coverage by the assessments. See “Summing Up by the Acting Chair—International Standards—Strengthening Surveillance, Domestic Institutions, and International Markets” (BUFF/03/43, March 26, 2003).

³⁵As acknowledged in the 2005 ROSCs, there are no mechanisms to track systematically either members’ implementation of ROSC recommendations or the extent and degree of their observance of the standards in all ROSCs. Also, since ROSCs have only been run once for most countries, they do not yet provide enough information on how observance has evolved over time. See “The Standards and Codes Initiative—Is It Effective? And How Can It Be Improved?” (SM/05/252, July 1, 2005).

³⁶“Biennial Review of the Implementation of Surveillance and of the 1977 Surveillance Decisions—Overviews, and Extension of Deadline for Review” (Minutes of Executive Board Meeting 02/38, April 5, 2002); “Summing Up by the Chairman—Biennial Review of the Implementation of Surveillance and of the 1977 Surveillance Decisions—Follow Up” (SUR/02/81, July 23, 2002); “Summing Up by the Acting Chair—Data Provision to the Fund for Surveillance Purposes” (SUR/02/54, May 16, 2002); “Enhancing Effectiveness of Surveillance—Operational Responses, Agenda Ahead, and Next Steps” (EBM/03/30, March 28, 2003); “Strengthening Surveillance—Further Considerations” (Minutes of Executive Board 03/79, August 20, 2003); and “Summing Up by the Acting Chair—International Standards—Strengthening Surveillance, Domestic Institutions, and International Markets” (BUFF/03/43).

how to enhance the impact of Fund advice to systemically relevant countries and how to strengthen surveillance in program countries. As a way to expand the information base and introduce new perspectives, the 2004 biennial review of surveillance built on the views collected from a large set of external stakeholders, including country authorities, financial market participants, think tanks, non-governmental agencies, and the media.³⁷

Except for an external evaluation of 1999, the Fund did not assess the strengths and weaknesses of the Board's role in surveillance policy and its implementation until the evaluations of aspects of surveillance recently undertaken by the IEO (2006, 2007). These are discussed in the next section below.

During 2002–06, the IMFC kept the Fund's work on surveillance under scrutiny. The committee's strong leadership lent support to a number of initiatives, including focusing attention on reviewing the Fund's 1977 Decision on Exchange Rate Policy Surveillance and setting up a new framework for surveillance.³⁸ These issues are discussed next.

New Challenges and Opportunities for Surveillance: Tackling Global Imbalances

In 2006, the MD was insistent that his Medium-Term Strategy (MTS) would include multilateral consultations and a review of the Fund's 1977 Decision on Exchange Rate Policy Surveillance. These both offered the Fund new ways to strengthen surveillance. Frankel (2007) characterized the new task of the Fund as follows:

. . . the Fund was handed a new mandate in 2006, both by its governing body and by the G7, that could restore it to central importance in the management of the world monetary system. . . . The mandate was to reconsider the 1977 Decision on Surveillance, and thereby look into the issue of global current account imbalances through a multilateral consultation process. In practical terms, this means that the US Treasury in early 2006 passed the Chinese *renminbi* hot potato on to the IMF, giving that institution a rare potential to help midwife or broker a multilateral agreement over the Chinese currency and also the G7 imbalances.

³⁷See "Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Modalities of Surveillance" (SM/04/212, Supplement 1, July 2, 2004); "Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision" (Minutes of the Executive Board Meeting 04/72-1, July 23, 2004); and "The Chairman's Summing Up—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision" (SUR/04/80, August 2, 2004).

³⁸See IMFC Communiqué and G-7 Communiqué, 2002-06 issues, and G-20 Communiqué, 2004-06 issues. www.g20.org.

Multilateral Consultations

The Fund launched its first round of multilateral consultations intended to strengthen the Fund's analysis of the potential benefits of collective action. They aim to help Fund members agree on policy actions to address vulnerabilities that affect individual members and the global financial system. The Board has been supportive of the new instrument, underscoring the importance of its own involvement as well as that of the IMFC—so it can exercise its role in the conduct of surveillance, give the process legitimacy, and allow the international community to assess results.³⁹

The approach adopted for the consultations assigns specific roles to specific actors according to their comparative advantage. Thus, while Management (and staff) supports policymakers in their dialogue, capitals play the role of policymakers and the Board oversees the exercise *ex post* for future guidance. The final section discusses the issue of optimal role assignment to the Fund's governing bodies.

While conclusive results cannot be expected in a short period, the first multilateral consultation has proven fruitful. In April 2007, participants presented to the IMFC a joint document in which each affirmed that reducing global imbalances in a manner compatible with sustained growth was a multilateral challenge and a shared responsibility, and set out a policy plan consistent with this objective.⁴⁰

Review of the 1977 Decision on Exchange Rate Policy Surveillance

The other pillar of the MTS is the review of the 1977 Decision on Exchange Rate Policy Surveillance in July 2006. The importance of the exercise is evident in the April 2007 statement of U.S. Treasury Secretary Henry Paulson who concluded that even “[a] more representative IMF . . . will mean little without significant improvements in the institution's surveillance over exchange rate policies.”⁴¹ The Board was asked to revise the Decision to unify what was diffused in various forms of guidance, clarify what was not clear, and address shortcomings in the

³⁹See “The Chairman's Summing Up—Implementing the Fund's Medium-Term Strategy” (BUFF/06/66, April 7, 2006); and “IMF Executive Board Discusses Multilateral Consultation on Global Imbalances,” IMF Public Information Notice No. 07/97, August 7, 2007.

⁴⁰See “The Multilateral Consultation on Global Imbalances,” *IMF Issues Brief*, Issue 07/03, April 2007.

⁴¹See “Statement by Treasury Secretary Henry M. Paulson, Jr., Following the Meeting of the G-7 Finance Ministers and Central Bank Governors,” Washington, April 13, 2007.

practice of surveillance. The review was intended to provide the Fund with a more operational, practical, and transparent approach to meet members' needs.

The Board was deeply divided over the first draft from Management. Among industrial country members, some supported the effort on the grounds that the Fund's surveillance had failed to meet the mandate of "firm surveillance" over the exchange rate policies of members. Board members from developing and emerging market countries feared that the proposal would give the Fund more leverage over their countries, while leaving untouched the real crux of the matter: the Fund's inability to exercise leverage on major economies that have no need for Fund resources or signaling. Directors in this camp worried that the proposal would produce new limits on the independence of member countries' economic policies, and that these constraints would be applied loosely to the larger economies but tightly to smaller ones.⁴²

In the face of a seriously divided Board, it took a considerable effort to build consensus. Through difficult negotiations, the Board arrived at a new Decision that, while crystallizing a common vision of the best practice of surveillance, would provide safeguards against asymmetric treatment of members and undue Fund interference in domestic policy matters. The new Decision was adopted on June 15, 2007.⁴³

New Surveillance Framework

Another recent controversy has surrounded a proposed new framework for implementing surveillance, and the attendant "remit" issue. The proposal for the IMFC to set a remit, or responsibility, for surveillance, and the Board discussions that ensued, are symptomatic of a confusion of roles and misperception of identities, which the current system of Fund governance does not help to resolve and itself exacerbates.

⁴²"Review of the 1977 Decision on Surveillance Over Exchange Rate Policies—Preliminary Considerations" (Minutes of Executive Board Meeting 06/66-1, July 19, 2006); and "Review of the 1977 Decision on Surveillance Over Exchange Rate Policies—Further Considerations" (Minutes of Executive Board Meeting 07/13-1, February 14, 2007). See also the concerns expressed in the G-24 Communiqué, April 13, 2007.

⁴³See "The Chairman's Summing Up—Review of the 1977 Decision—Proposal for a New Decision on Bilateral Surveillance Over Members' Policies" (BUFF/07/85, June 2007); and "IMF Executive Board Adopts New Decision on Bilateral Surveillance Over Members' Policies," IMF Public Information Notice No. 07/69, June 21, 2007.

In 2006 the IMFC, at the instigation of its Chair,⁴⁴ proposed a new framework for implementing surveillance that included two provisions.⁴⁵ One required members to restate their commitments under Article IV, and the other required the IMFC to set an annual remit for surveillance, through which the Board, Management, and staff would be accountable. Both provisions were consistently and strongly supported by the G-7.

The Committee's communiqué on this subject raised governance issues of its own. First, in a Board discussion following the IMFC meeting, several Directors noted that the idea of a surveillance remit was not part of the MTS and had been introduced in the communiqué without prior agreement from members and without Board involvement. They lamented the non-transparency of this process. Second, to many Directors it was not clear what exactly "remit" meant. Third, many Directors wondered what role the IMFC would be expected to play on the remit, given that the IMFC is only an advisory body. A seminar on the issue clarified that, if adopted, the remit would need to be set by the Board, consistent with its prerogatives. In the discussion, serious reservations were expressed on the value of such a remit, and it was concluded that the issue needed further consideration before the Board could come to any decision.⁴⁶

⁴⁴Speaking on behalf of the United Kingdom, Gordon Brown explained his proposal for "... a new annual remit for surveillance—set by the IMF's board and endorsed by its members at the IMFC each year—to match independence in the process of surveillance with a clear commitment to it. And so each year the IMFC should set the direction, and emphasize the unique role of the Fund as a universal institution to support all economies individually and collectively. . . . In multilateral surveillance, the IMFC in its annual remit should task the Fund to identify and quantify the key risks to the global economy—and set out the individual or collective policies to manage those risks. . . . For issues which can only be resolved by a number of countries, the Managing Director's proposal for strengthened mechanisms for bringing together the key systemic members of the global economy will assist reaching more effective collective solutions to the challenges this new model of multilateral surveillance could identify. This will strengthen the IMFC as a direct channel of peer pressure and peer support—and promote multilateral policy cooperation by focusing policymakers more clearly on the key actions needed to manage global risks. . . ." (IMFC Statement by Rt. Hon. Gordon Brown, Chancellor of the Exchequer of the U.K. and Chairman of the IMFC).

⁴⁵See IMFC Communiqué, Washington, April 22, 2006.

⁴⁶See "The Acting Chair's Concluding Remarks—Toward a Remit-Independence-Accountability (RIA) Framework—Clarifying Accountability and Methodological Issues in Assessing the Effectiveness of Surveillance" (BUFF/07/41, March 22, 2007). Criticizing the tone of the April 22, 2006 IMFC Communiqué, one executive director said it was imperative to reassert the central role and the leadership of the Board in deciding how to strengthen surveillance.

Adapting Surveillance: How Did Governance Work?

This section considers the system of governance over global finance and its recent evolution, examines how global governance has affected Fund governance, and identifies the weaknesses of Fund governance in adapting surveillance. It draws elements from previous independent evaluations of aspects of surveillance (including IMF, 1999; IEO, 2006, 2007).

Global Governance

The second section illustrated the leading role played by the G-7 in steering Fund surveillance of the world economy from the mid-1990s onwards, in particular since the East Asian financial crisis. But for a full understanding of the links among the governance of global finance, Fund governance, and the effectiveness of surveillance, several important trends need to be considered:

- *While powerful, the G-7 has become less effective in tackling global challenges* (Kenen and others, 2004). The advent of new critical issues—most notably, the resolution of international financial problems—and the increasing economic weight of other nations on global financial stability and growth have diminished the capacity of the G-7 to resolve global challenges on its own. In the view of Kenen and his co-authors, the G-7's experiments with broader international groupings are telling signals of the group's diminished capacity.
- *Global governance of finance now requires broader participation in decision making.* The growing systemic importance of emerging economies requires direct involvement in international policy cooperation. Engaging these economies in international decision making motivates their governments to share in global responsibilities. The creation of the G-20 and the Financial Stability Forum is a response to the new state of global economic affairs.
- *The authorities of most countries have become more deeply involved in global governance.* Globalization gives each country greater opportunities to exploit as well as greater risks to manage. Hence, the interests of national policymakers in international policy issues have become pressing, leading them to devote more time and resources to international economic relations. As a result, contacts between capitals and international organizations have dramatically expanded.
- *Governing the global economy has highlighted the need for new rules of conduct.* Concerns have grown about systemic risks, international policy spillovers, and cross-country contagion of economic and financial shocks. Policies at the country or regional level have

been seen to produce unintended global consequences that have demanded appropriate coordinated policy responses from the international community. It is now recognized that a world economy dominated by integrated markets, and with countries at very different levels of economic and institutional development, requires a system of global, yet non-binding, rules of conduct (“soft law”) that are internationally promulgated and nationally implemented.

- *The Fund has become the vehicle of international finance “soft law.”* A new global financial architecture has evolved, founded on international entities within which groups of countries can meet and address critical cooperative issues. The Fund is at the core of the new architecture, as the most consolidated and structured multilateral organization with near-universal membership. The international community regards the Fund’s contribution as instrumental to provide robust technical solutions, mobilize financial support, grant legitimacy to international cooperative decisions, and act as an efficient implementing agency of those decisions. The Fund has become the main instrument to disseminate new standards and codes globally, to promote their adoption, and to monitor their observance by members.

The leading countries have responded to these trends by applying the following practical principles:

- *Select the “minimum winning coalitions”* to address global issues: that is, include in the decision-making process (only) those countries whose support is needed to implement effective collective action (Kenen and others, 2004).
- *Keep governance frameworks informal and flexible*, so as to modulate participation (of countries and institutions) as and when required by the problem at hand.
- *Hold control tightly in the hands of capitals.* The practice of working on problems together, pursuing common objectives—reinforced by the opportunities for continuous contact made possible by technology—has greatly increased the cooperation potential of policymakers in the leading countries, giving them strong incentives and tools to exert tight control over global agendas and policy decisions.⁴⁷

A key implication of all this is that the center of decision making regarding the international monetary and financial system remains

⁴⁷Such a degree of cohesion is particularly strong within the G-7, and has not yet been paralleled by other existing international groupings. This feature helps to keep the G-7 highly effective notwithstanding the progressive waning of its influence. For an insightful illustration of the cooperative work of the G-7, see Sobel and Stedman (2006).

outside the Fund. While the Fund is seen as an essential instrument of the new global financial architecture, the emerging governance organs of the international monetary and financial system promoted by the G-7—the G-20 and the Financial Stability Forum—have not been placed under the aegis of the Fund. This reflects the determination of the leading countries to keep decision making outside of the governance rules and practices enshrined in the Fund's governance structure.⁴⁸ These decisions contrast starkly with the choice made by the international community in 1972, at the insistence of the United States, to bring back into the Fund the discussions on reforming the international monetary system.⁴⁹

Another important implication is that the control from capitals over the Board has increased (Cottarelli, 2005). Since the 1990s, interactions between capitals and the Board have intensified.⁵⁰ More intense interactions have accompanied a tendency by national authorities (especially in the leading industrial countries, and increasingly in emerging market countries) to exert tighter control over decisions by their executive directors, with effects on the quality of surveillance that will be discussed below.

Fund Governance

The recent evolution of global finance governance has weakened the role of the governing bodies of the Fund, with overall effects that need to be evaluated. Here, each of the Fund's governing bodies is discussed in turn.

⁴⁸Referring to the G-7 countries, Van Houtven (2002) remarks that they “. . . have exhibited a growing tendency in recent years to act as a self-appointed steering group or ‘Directoire’ of the IMF. Recent reports of the finance ministers to the heads of state and government at the annual summit meetings have sometimes tended to deal with IMF matters in a manner that raises the question of whether they will leave the Executive Directors representing the Group of Seven countries with the necessary margin for discussion and room for give-and-take that is essential for consensus building” (pp. 30–31).

⁴⁹In recent years, the rise of large global macroeconomic imbalances and the decision to address them in the context of strengthened Fund surveillance signal a renewed interest in having the Fund play a greater role in facilitating policy coordination. Whether this is a reflection of a long-term strategic vision or of opportunistic behavior remains to be seen.

⁵⁰The public-good nature of Fund “production,” and in particular the potentially large impact it may have on countries' welfare and politics, leads members to seek close control of the Fund's production process, through frequent processes of monitoring, feedback, and error corrections, and through tighter control over the Fund's decision-making processes. The involvement of capitals has intensified with the increased concerns about systemic issues and the perception that the Fund has a relevant role to play in addressing them.

The IC/IMFC

Today, the IMFC confronts a serious identity problem. Its role is weakened by the tendency to keep decision making on the international monetary and financial system outside of the Fund. As the second section illustrated, the Committee's role is overshadowed by other entities. As a result, it is neither the crucible for new policies nor the forum for coordinating or debating international financial policy. Many observers believe that, as a ministerial entity with a relatively small and manageable structure, the IMFC serves the important function of legitimizing on behalf of the membership the strategic directions that the Fund sets out to pursue.

Over the period considered in the present study, the Committee endorsed the various steps of the surveillance adaptation process. *It imparted discipline to the exercise, inducing the Fund to be responsive and to deliver on its work program. Finally, by asking the Fund to report on surveillance periodically, the Committee has exercised an important function of global accountability vis-à-vis, and on behalf of, the Fund's shareholders and stakeholders.*

However, the Committee has not made a distinctive contribution in terms of policy guidance, agenda setting, or strategy making beyond the contribution made by the Board. In this regard, the contribution of the IMFC deputies has been minimal. This mostly reflects the existing arrangement, whereby capitals interact continuously with executive directors, to such an extent that Board deliberations closely reflect the views from capitals. In addition, the established practices are such that the Committee receives policy or strategic directions set elsewhere by policymakers of the leading countries and endorses them as Fund mandates only after the Board and Management have worked out the operational modalities.

What value, then, does the Committee add to the effectiveness of surveillance? Under both its incarnations (the IC and the IMFC), the committee has been organized to play both an oversight role—by discussing international economic and financial issues and policies in a cooperative way—and an advisory role—concerning the adaptation of Fund surveillance policy to changes in the world economy. The role of the Committee chair is relevant and important, but within limits.

Oversight

Under the constraints described, the IMFC's oversight of surveillance does not substantively add to what the Fund's Board ordinarily does. The Committee reviews the world economic outlook and prospects based on

the analyses prepared by the Fund, and considers the relevant policy issues of systemically important countries and regions. It monitors the progress made since the previous review, identifies areas of concern requiring action, and formulates recommendations on measures that members should adopt to achieve sustainable growth. But the Committee may not request members to commit to policy actions, nor does its *modus operandi* encourage it to exert moral suasion strong enough to bring about adequate policy responses from members. Therefore, statements like:

“The Committee considered at length the challenges facing the world economy. It is its unanimous view that forceful action is required on the part of member countries over a broad range of policies . . .”⁵¹

followed by detailed lists of policy prescriptions, as commonly appear in its communiqués, are mere exhortations, no matter their underlying sense of urgency. The attempt by the IC in 1993-96, mentioned in the second section, to enhance systematic reporting from the Fund on selected country issues, did not translate into any significant strengthening of surveillance.

Surveillance can ultimately be effective only if members are prepared to consider the views of the international community when formulating and adopting their macroeconomic and structural policies.⁵² Mindful of this view, the Committee has often reiterated its call to strengthen the policy dialogue between the Fund and its members. The Committee would add value to surveillance if, as the only financial multilateral ministerial forum with near-universal representation, it were to provide the locus where national policymakers can address each other directly and candidly on policy measures, commitments, and constraints relating to systemic issues, and consider collective action when needed. No group of officials

⁵¹IC Communiqué, Washington, October 4, 1998.

⁵²This view, which staff and Management have several times emphasized in the context of the Fund's periodic reviews of surveillance, is well expressed in the following passage from the concluding section of the 1992 “Biennial Review of the Fund's Surveillance Policy” (SM/92/234, December 30, 1992): “. . . no set of surveillance guidelines and procedures can truly succeed unless all members, recognizing their interdependence within the international monetary system and their mutual self interest in the smooth operation of the system, are willing to implement sound and stable economic policies with appropriate attention to multilateral consideration. This suggests that if the effectiveness of the Fund's surveillance over its members' exchange rate policies is to be strengthened, the basic issue is the willingness of members to be prepared to take full consideration of the views expressed by the international community in formulating their macroeconomic policies” (p. 29).

without direct responsibility for national policy decisions could act on a comparable level. The final section returns to this point.

Advice

In its advisory capacity, the IMFC takes notice of the Fund's periodic reviews of surveillance and ongoing policy work, provides general guidance to the Fund where surveillance needs strengthening, agrees on next steps and deadlines, and monitors further progress. But in conveying to the Fund the views of ministers and governors on gaps that need to be addressed by Fund surveillance, the emphasis should be on the substance of problems rather than on the Fund's responses. This would not be dissimilar to the approach the G-7 has consistently been taking since the 1990s. But the advantage would be that the IMFC's debates and considerations would reflect the views of all Fund members and would benefit from a much broader and deeper knowledge base.

Currently, IMFC members do not elaborate their own analyses of surveillance, and rely instead on Fund reports (which the Board preliminarily discusses in consultation with capitals). In preparing for their meetings, IMFC ministers and governors receive feedback from Directors, and have staff in their capitals draft speaking notes for their interventions and written statements for the record. Often, these materials are prepared by executive directors. At the meetings, ministers and governors deliver their notes, with limited, if any, interaction with one another and hardly any opportunity for meaningful dialogue.⁵³ The deputies' meetings that precede (and are supposed to carry out preparatory work for) meetings of their principals do not offer substantive contributions.

Role of the Committee Chair

The effectiveness of the IMFC partly depends on the attitude, skills, and repute of its chairperson. Such features are important intangibles, especially for an advisory body. The attempts by the IC in the 1990s, and the IMFC more recently, to take on a more proactive role in surveillance originated from the determined efforts of the Committee's chairmen.

However, the Committee's failure to become the global forum of surveillance—and, hence, of international monetary and financial policy cooperation—exposes the limits of what a leader's personal prestige and ability

⁵³More useful, perhaps, are the informal discussions that IMFC members hold at the luncheon following the plenary session. Unfortunately, no written records or communiqués are available for a systematic evaluation of these discussions.

can achieve, and shows that the Committee's effectiveness ultimately depends on how the leading countries intend to run global financial governance.

Executive Board

Executive directors are Fund officials appointed or elected to the Board by the Fund's member countries. They are commonly characterized as having a "dual" responsibility, although no explicit reference to such duality is made in the Fund's Articles of Agreement (see Box 1 below). This dual role places the Board at the delicate juncture between the Fund's "technical" level (Management and staff) and the "political" level (member governments). This juncture, and the extent to which directors succeed in balancing their dual responsibility, influence the relationship between the Fund and its members and, ultimately, the quality of Fund outputs.

Executive Directors must balance their dual responsibilities if the Board is to act collegially, to guarantee the Fund's neutrality and uniformity of treatment of members, and to exercise independent and informed judgment in the interest of all members. Balancing the two responsibilities requires directors to rely on consensus building as a decision making practice to reconcile the institution's largely asymmetric governing structure with its fundamentally cooperative mission. Directors should do this bearing in mind that as members of a corporate board their primary loyalty is to the institution.

Incentives Facing Executive Directors

The incentive structure facing executive directors, and the way they interpret their role, affect how they balance their responsibilities, determine the strengths and weaknesses of the Board as a governing body, and eventually has an effect on the quality of Fund outputs. While the Board has played a central role in adapting Fund surveillance policy, many surveillance shortcomings identified by the independent reviews can be explained by factors that have weakened the Board in exercising its governance function. Overall, directors face an inappropriate incentive structure, which limits the Board's collegiality and independence as well as its capacity to build and use information.

It was noted above that the control by capitals (especially of the leading industrial countries) over the Fund's decision-making process has intensified recently. Tighter external control over directors is a neglect of basic governance principles, that can only partly be justified by the lack of a clear interpretation of the role of directors as provided for in the Articles

Box 1. The Dual Role of the IMF's Executive Directors

To whom should the Fund's executive directors ultimately be loyal? While the Fund's Articles of Agreement explicitly provide that "(t)he Managing Director and the staff of the Fund . . . shall owe their duty entirely to the Fund and to no other authority" (Article XII, Section 4(c)), they are silent as to whom executive directors should owe their allegiance.

This silence may reflect the drafters' consideration that, as members of a corporate board, executive directors owe their loyalty exclusively to the institution and its members as a whole. Under such an understanding, executive directors may not be representative of any parties or interests other than those provided for under the Articles. The Fund's former General Counsel François Gianviti (1999) supports this view, arguing that, unlike representatives of member states to other international organizations, executive directors are officials of the Fund and legally accountable to the Fund for the discharge of their duties. The fact that they have been selected by member states does not create an obligation for them to defer to members' views or to cast their votes in accordance with members' instructions. Their votes are valid even if they are inconsistent with any instructions they may have received from their constituents. As to their voting power, Gianviti claims that the drafters of the Articles were very careful to dissociate the votes cast by a member from those cast by its executive director. In other words, executive directors cast their votes not on behalf of the members appointing or electing them but as members of the executive board.

On the other hand, the silence of the Articles (especially if juxtaposed with the explicit reference to Management and staff noted above) may reflect the drafters' understanding that executive directors have a composite role, as Fund administrators and as the voice of Fund members. This is recognized by the legal interpretation of the Articles of Agreement of the World Bank (2004). The interpretation clarifies that, in discharging their duties, executive directors fulfill a "dual" function as officials of the Bank and as representatives of the member countries that appoint or elect them: they owe their duty both to the Bank and to their constituencies. Their relation with their countries is a two-way relationship, in which they are expected to inform the countries of the issues before the Board, and to take into account the views of their countries in forming their positions on issues. However, as the interpretation clarifies, executive directors are not to act simply as ambassadors of their constituents; they are expected to exercise their individual judgment in the interest of the Bank and its members as a whole.

of Agreement. Responsibility for this neglect lies with the authorities in capital cities and with the executive directors themselves.⁵⁴

In fact, many directors understand their role as to execute their capitals' instructions at the Board. Others, who interpret their role as implying a primary obligation of loyalty to the institution and its membership, face incentives that discourage such an interpretation. Such factors as low seniority, undefined terms of reference, short duration of mandate (for those who are elected) or duration at the pleasure of the authorities (for those who are appointed), and the desire to preserve good relations with home administrations for career purposes, reinforce the subjection of executive directors to their capitals. Communication technologies have virtually eliminated the distance between Washington and other capitals, which previously granted directors broader latitude for autonomy. The development of efficient modes of consultation among capitals has magnified the ability of national policymakers to coordinate decisions internationally and to transmit them (in real time) to their directors. As such, where directors face conflicts between what they deem to be in the interest of the Fund and the view of their capitals, even the most independent-minded of them eventually side with their capitals.⁵⁵ Exceptions are rare.

The disregard for the Board's autonomy and the migration of decision making to capitals may explain the weak collegiality of the Board and its suboptimal use of information, as well as its reactive attitude. This is discussed in Chapter 13 in this volume. In addition, by weakening the authority of the Board, the migration of decision making to capitals may deprive the Fund staff of the institutional protection it needs to carry out surveillance evenhandedly and under no temptation of clientism. None of

⁵⁴In the case of the U.S., the provision governing the U.S. Executive Director is clear: "One of the ways in which the US Congress endeavors to influence Fund policy is by passing legislation or mandates that direct the Secretary of the Treasury to *instruct the US Executive Director* to pursue specific policies or vote on certain programs or assistance within the Board of the Fund. . . . The legislation often directs Treasury to *instruct the US Executive Director* to use its "voice" or "vote" at the Executive Board to bring about a policy change at the Fund" (GAO, 2001, p. 4, emphasis added).

⁵⁵Boorman (2007) refers to the Multilateral Debt Relief Initiative (MDRI), led by the G-7/8 and adopted by the Fund and the World Bank in March 2006, as an example of such conflicts. The author of the present study can testify to the relevance of this example, as he was an executive director of the World Bank when the MDRI was discussed and approved by the Board of the IDA. Notwithstanding his strong reservations against the way the initiative had been designed, due to its potential long-term negative consequences for the World Bank's financing to its poorest members, he supported the initiative all along, not least because the leading country of his constituency was a member of the G-7/8 and a subscriber to the initiative.

the above should be taken to imply that directors do not form their own views on the issues discussed at the Board. But the question is to what extent these views are oriented to the interest of the Fund's membership as a whole, rather than reflecting the positions of individual capitals. As also discussed in Chapter 13, the wealth of views expressed at Board meetings often fails to translate into real dialogue, with give-and-take, attempts at mutual persuasion, openness to persuasion, and changes of opinion.

This "hetero-direction" of the Fund from a non-representative group of capitals feeds the widespread perception of a global governance system that does not serve the interests of all its members equally. This may explain why most governments increasingly recognize the need for new "rules of the game" to govern domestic economies in the new global context but strongly resist subjecting themselves to new international obligations ("hard rules").⁵⁶ Governments of developing and emerging market country governments have a deep-seated concern that new hard rules would inordinately reflect the interests of the industrial countries, and would unduly restrict their competitive and developmental capacity. At a minimum, these governments fear that the rules would be applied asymmetrically and to their disadvantage. This in turn creates a lack of trust that undermines international cooperation.

Conduct of Board functions

In surveillance, the Board oversees surveillance policy, guides its adaptation to changes in the world economy, and conducts surveillance based on staff analysis and advice on economic developments at the country, regional, and world level. In addition, in their capacity as country officials, Board members assist their authorities in fulfilling their surveillance obligations to the Fund.

Policy oversight. In its policy oversight role, the Board has ensured that the design and operation of the evolving framework of surveillance responds to the needs, interests, and concerns of the range of Fund members, and would therefore receive their broad support. The Board has served as the forum where members could think through proposals for policy adaptation and innovation, and contribute ideas. Through close contacts with the governments of their constituent countries, and by keeping governments abreast of the policy thinking evolving within the Fund, Board members have played a critical role, helping to forge the

⁵⁶This perception emerged vividly in the recent Board discussions on the 1977 Decision on Exchange Rate Policy Surveillance, and in the Board discussions of financial sector standards and codes in the late 1990s/early 2000s.

consensus on changes to surveillance policy. In the global governance context described earlier, the Board has played the delicate role of making the standards and codes advocated by the leading countries “digestible” to Fund members, by matching their design as closely as possible to members’ composite set of preferences and concerns.

The Board has been more effective as a diligent agency on behalf of members, ensuring good design and execution of the Fund’s mandates, than as a collegial body of administrators working together to shape a vision and perception of problems. For its periodic reviews of surveillance policy, the Board has typically relied mostly, if not exclusively, on staff reports and recommendations. However rigorous and analytically deep, staff reports do not exhaust the observation space that the Board, as the overseer, should explore in order to challenge Management and staff as extensively as possible and to prompt them to push the Fund’s “production possibility frontier” further.

Except for the external review of surveillance that the Board requested in 1999 (IMF, 1999), *the Board has not sought opinions from independent sources*—although a major change in this respect has come with the establishment of the IEO. *Nor has the Board made systematic and integrated use of stakeholder feedback collected by executive directors through their contacts with member countries, nor does it avail itself of systematic evaluation of its own performance.* In preparation for surveillance reviews, the Board has not carried out preliminary (committee) work to look at policy surveillance issues from different angles than those considered by staff or to prompt staff and Management to consider other aspects and problems. This reactive attitude has limited the Board’s oversight potential and capacity to exercise policy guidance. It may have led the institution into “tunnel vision,” and deprived it of the powerful system of checks and balances that a resident Board in continuous session should in principle be able to afford.

In the oversight context, these Board weaknesses, along with the lack of independence and collegiality among directors, may have detracted from the Fund’s capacity to prevent many of the surveillance shortcomings that were observed by the independent evaluation studies. The weaknesses may have constrained, for example, the Board’s capacity to take issue with the depth and breadth of Fund analysis beyond the issues addressed by the staff; to investigate the quality of the Fund’s relationships with country authorities; and to assess Management’s practices more thoroughly. As the organ responsible for Fund surveillance, a more independent and collegial Board would have been better placed to use its information more effectively, and deliver stronger oversight of Fund surveillance overall, if necessary even by using more committee-type work and by resorting more often to external expertise and advice.

Conduct of surveillance. The Board completes the conduct of surveillance by discussing the analyses and policy recommendations of staff and by issuing a summary of their views. This is where the Board is perhaps least effective and misdirects its resources most visibly. Although the Board devotes between a quarter and a third of its boardroom time to discussing Article IV reports, it does not contribute much to the staff's economic policy advice. In addition, as the independent evaluations have observed, the authorities of member countries do not attach particular importance to the Board's conclusion of consultations, and skepticism is common about the efficacy of the direct role of the Board and its peer-review effects (IMF, 1999; IEO, 2007). Similarly limited is the Board's contribution to multilateral surveillance, which has also been criticized for its lack of focused recommendations and clear messages (IEO, 2006). Finally, the coverage of issues by surveillance has been found insufficient, and perceptions of inconsistent treatment of members and of clientism remain widespread (IMF, 1999; IEO, 2007).

The Board seems to be doing too much of what it is less good at, and too little of what it can do best. After all, the Board is not mandated to act as an economic policy advisory body, nor does it bring together country officials with policymaking responsibility to defend their countries' policy stances in the context of peer review (see Box 2). Moreover, even if the expectation is that directors' statements on Article IV consultations reflect the viewpoints of the entire membership and thus legitimize the surveillance exercise, the reality is that few capitals have enough resources to invest in reviewing the policies of other members.⁵⁷

Instead, the Board should act as the ultimate guarantor of quality of Fund surveillance, and should ensure that staff and Management handle the policy dialogue with members to the highest standards of competence, integrity, and balance. The way the current multilateral consultation exercise is taking shape can be taken as an example to show that Fund Management and the authorities in member capitals—not the Board—are indeed the natural actors in surveillance, while the Board is better placed to ensure that the Fund provides the best possible support to the exercise.

⁵⁷In most cases, directors form their own judgments by reading staff reports, and consult their capitals for comments prior to finalizing their statements to the Board. This does not contradict the observation on the increasing role of capitals in Fund decision making. The capitals referred to are those of a relatively small group of countries and their attention is focused mostly on Fund policy, sensitive country matters, and crisis cases, and much less on routine Article IV consultations.

Box 2. Peer Review in Other International Organizations

The participation of high-level national officials is a key common principle underlying the peer-review process of country policies in other international organizations. This principle guarantees that member states are represented by national officials who are directly involved in domestic policymaking. It grants relevance and content to the peer-review exercise, ensuring that members speak with adequate voice and that the countries under review provide the best possible answers to their peer reviewers' questions. The principle ultimately strengthens the ownership by member states of the peer-review process.

In the OECD, where peer review offers members the framework to compare experiences and examine best practices, the Economic and Development Review Committee (EDRC) is at the core of the mechanism. This committee is made up of representatives of all 30 OECD members and the European Commission, and is responsible for examining economic trends and policies in individual member countries. The committee carries out the reviews, with participation by member countries' permanent delegates to the OECD, sometimes assisted by experts from their governments. The committee discusses the review report, and a delegation of high-level government officials represents the country under review and answers questions from the other members. The delegation may include civil servants from ministries and agencies. Examiners representing the collective body carrying out the review. The effectiveness of the peer review depends crucially on an adequate commitment to the process by participating countries. High-level participation is especially a major factor in the work of the OECD's Working Party 3, which groups the G-10 countries to focus on multilateral reviews of economic policies.

The Trade Policy Review Mechanism (TPRM) is the WTO's instrument for surveillance of national trade policies. The TPRM examines the impact of a member's trade policies and practices on the multilateral trading system. The reviews, which are essentially peer-group assessments, take place in the Trade Policy Review Body (TPRB), comprising the WTO's full membership. When a country report is circulated to the WTO members, each of them can address questions in writing to the member under review (reviewee), even in advance of the meeting. The reviewee can reply in writing, and the replies can be further discussed. At the meeting, the reviewee is represented by the competent minister or the most senior civil servant. High-level participation in the peer-review exercise is predicated on the understanding that the WTO's deep look at the country's trade policies requires the direct involvement of the national authorities responsible for those policies.

In the European Union (EU), the technical and political levels of economic policy surveillance are carried out, respectively, by the Economic and Financial Committee (EFC), comprising top public officials, and by the Economic and Financial Affairs Council (ECOFIN), whose members are the economics and finance ministers of the EU. The EFC keeps under review the economic and

Box 2 (concluded)

financial situation of EU member states. Each member appoints to the EFC two representatives, one from the national administration (generally the ministry of finance) and the other from the national central bank. The EFC meets with national central banks, when a review of the economic situation, issues of financial stability, or questions concerning the IMF are on the agenda.

Assistance to country authorities. In their capacity as country representatives, executive directors are directly involved in the conduct of surveillance as they assist their country authorities throughout the bilateral consultation process. This aspect of surveillance has never received outside scrutiny, because the related activities of executive directors have been considered as strictly part of the inner relationships between their offices and their constituency members.

To appreciate the importance of this it is worth recalling that, in 1995, in the wake of the Mexican crisis, the Board reported to the IC that the extent to which directors could provide independent and frank assessment to the staff was an important factor in effective surveillance.⁵⁸ The report stated that directors had an important role to play in fostering an atmosphere of cooperation and trust by facilitating dialogue between Fund staff and the members of their constituencies. Cognizant of this, the MD at the time proposed to examine how directors could integrate themselves more effectively into the policy dialogue with members.⁵⁹

However, this idea was not followed up, and since then no consistent practice has been developed. There are no records of how this function is actually performed, nor are there guidelines that set good practice principles for it. How to carry out this role is left to individual directors. For example, should they take a neutral stance or should they participate actively in the policy dialogue between staff and capitals?⁶⁰ Should they facilitate communications between the two sides? Should they facilitate, or even encourage, the undertaking of surveillance ad hoc or follow-up procedures with their capitals when needed? Should they have a public

⁵⁸See "Report of the Executive Board to the Interim Committee on Strengthening Fund Surveillance" (SM/95/70, Revision 3, April 20, 1995).

⁵⁹See "Statement by the Managing Director to the Executive Board—Department Heads Retreat—Strengthening Country Surveillance" (BUFF/95/67, July 18, 1995).

⁶⁰IEO (2007: 48, footnote 67) refers to cases where directors' involvement in the consultation process was helpful.

relations role and help the Fund communicate its policy recommendations to their countries' public opinion? It is reasonable to assume that different country cases would require different types of conduct from directors. What should be noted is that all these questions are somehow resolved within the directors' routine, based exclusively on their preferences, in the absence of standards of effectiveness and consistent criteria.

Board Accountability

Some of the issues relating to the role of the Board on surveillance policy have been the object of the independent evaluations cited earlier. *But the Board has devoted only passing attention to observations critical of its own role.*⁶¹ The Board has defended its performance generically, without considering where its conduct might require revisiting or corrective action.

The dismissive responses of the Board signal a crucial problem of governance, starting from the basic questions of who is responsible for holding the Board to account for its performance, and how the Board can take responsibility for its acts. The Board's dismissive responses to evaluation findings are also a manifestation of what this paper and Chapter 13 point to as the Board's major weakness: its lack of collegiality. If directors fail to recognize collegiality as an essential value of the Board, they may not perceive an obligation to respond adequately to criticisms.

Management

Fund Management obviously plays a central role in surveillance policy, and enjoys considerable latitude to influence the policy's adaptation and implementation. An example is the role played by the MD in "waking up" the Board to weaknesses in surveillance after the Mexican financial crisis. Management can exercise significant leadership thanks to control over a highly qualified and disciplined staff, direct access to country authorities and leaders, extensive involvement in external relations, and the role of chairing the Board.

Management has an important role in communicating the Fund's views to world public opinion, and in prompting the staff to use communication strategically as a means to raise the institution's profile in the policy debate both within countries and globally. The use of communication as a management tool has helped the Fund to extend its policy dialogue with

⁶¹These observations have been dismissed rather rapidly in the Chair's Summings Up. See IMF (1999, pp. 4–6); IEO (1996, pp. 46–47); and "The Chairman's Summing Up—IEO Report on the Evaluation of the IMF Exchange Rate Policy Advice, 1999–2005" (BUFF/07/71, May 15, 2007).

members beyond the traditional narrow circles of national policy experts, and to improve its capacity both to deliver its messages to broader and more composite audiences and to receive feedback from them.

Management may influence the effectiveness of surveillance by intervening directly in the Fund's policy dialogue with members, as the story of the 1994 CFA franc devaluation (IEO, 2007) or past episodes of interim consultations indicate. Similarly, Management's participation in the work of international policy groupings helps introduce the multilateral perspective from an authoritative source. The same may hold in the context of the multilateral consultations recently adopted. Skills and personality matter since candor must combine with diplomacy, technical knowledge, and political sensitivity to deliver effective messages to powerful interlocutors, and being heard. Where such talents are present, Management is in a privileged position *vis-à-vis* the Board to conduct surveillance operations in cooperation with national authorities (quietly and behind the scenes, if necessary), acting as an independent, technically competent, and trustworthy party that represents the interest of the Fund's whole membership. Yet Management's ability to exploit this vantage position is constrained by the latitude that the leading countries are willing to grant to the Fund in the context of national and international policy discussions. Examples like the absence of Fund involvement in such a critical event as the 1992 currency crisis in Europe (IEO, 2007), or the Managing Director's restricted participation in G-7/8 meetings, make these constraints quite evident.

Management is responsible for decisions on human resources. *While these decisions may affect the Fund's outputs, they are not covered under the periodic reviews of surveillance, and the Board has no regular opportunity to oversee this important aspect of operations.*⁶² Management typically announces important organizational decisions to the Board, but does not seek or receive much feedback on them from the Board. Important reorganizations and organizational innovations have taken place since the early 2000s in the area of financial sector surveillance, to address weaknesses noted by the ad hoc external reviews. Similarly, the recent IEO evaluations of multilateral and exchange rate policy surveillance have pointed to organizational limitations that need correction. In no case has the Board concluded its discussions by indicating an intent to look into these problems specifically. Nor has the Board raised organizational issues on its

⁶²The organizational aspects of the surveillance function were covered in the external ad hoc reviews of financial sector surveillance that Management commissioned, but these reports were transmitted to the Board for information only. The external evaluation of surveillance (IMF, 1999) covered organizational issues but these did not attract the Board's attention.

own initiative. Yet, as the analysis by Cottarelli (2005) suggests, human resource and organizational issues may strike at the heart of the Fund's capacity to deliver its outputs.

Management has traditionally guarded its decision-making prerogative on organizational matters, with little inclination to be held accountable by the Board. This aspect of the Board-Management relationship raises two separate problems. First, the Board has usually been happy not to engage Management on this front, on the grounds that organizational issues fall within the purview of Management and that the Board should not attempt to micro-manage the institution. *But leaving decisions to Management does not release the Board from holding Management to account for decisions taken, especially when these have a significant impact on Fund outputs.* Nor does it prevent the Board from providing Management with views and recommendations on organizational matters.

The second problem is more general. Executive directors, especially from borrowing countries, are reluctant to challenge Management decisions or antagonize Management, except in extreme circumstances. The MD—who is chief executive officer and chair of the Board—enjoys a superior status than the executive directors, is in practice not selected by them and has direct access to the highest-level authorities in the countries they represent (which they themselves may not have).⁶³

In some cases the Board has given Management strong signals on the need to intervene on organizational matters relating to surveillance. In the wake of major crises—in 1995 and 2002, for instance—the Board found that aspects of the Fund's organizational framework might have detracted from the effectiveness of surveillance. A number of Board members pointed to the need to encourage independent analysis, thought, and evaluation within the Fund; and they considered the related organizational issues. The MTS includes organization as one of the main areas where the Fund needs to undertake important changes.

Conclusions and Recommendations

Surveillance is a fundamental responsibility of the Fund. The principles and practices of Fund governance play a key role in the evolution of surveillance policy, enabling its adaptation to a changing world

⁶³In interviews, some executive directors critically noted that the MD has the habit of going directly to the IMFC and Fund governors, bypassing the Board. In some cases, directors who had challenged Management were rebuked by their capitals.

economy and affecting its quality. In fact, those principles and practices are themselves the results of the institutional and political dynamics that underpin the governance mechanisms of global finance. A good understanding of Fund governance, therefore, requires taking governance of global finance into consideration.

Since the demise of the par value system, surveillance has evolved more by way of changes in procedures than through the adoption of new obligations. However, in the aftermath of the Mexican financial crisis, the G-7 and broader country groupings that engaged in global governance have pushed the international community to accept common standards of best practice and codes of conduct (“soft law”) to handle the challenges of globalization. Fund surveillance was the instrument to disseminate the new sets of rules across the Fund’s near universal membership, and to facilitate their implementation by member countries. But the resolution of the leading countries to keep the center of gravity of global decision making outside of the Fund discouraged the cooperation needed to make the new rules effective. So did the concern of developing countries that a Fund controlled by the leading industrial countries would become the “enforcer” of the new rules. Thus, they were only willing to accept new rules as long as adherence to them would be voluntary.

While the current model of IMF governance has helped to build consensus on adapting surveillance policy to changes in the world economy, overall it has weakened the role of the IMF in delivering effective surveillance, and has failed to generate the right incentives for member countries to engage effectively. The failure of the IMFC to become the global fulcrum of surveillance, and, therefore, of international monetary and financial policy cooperation, underlines that the effectiveness of surveillance is ultimately a function of the political decisions of the leading countries about how to run global governance.

The analysis in this case study calls for revisiting the scope and responsibility of each of the Fund’s governing bodies with a view to maximizing their contribution to effective surveillance. A number of recommendations follow which revolve around the principles of *specialization, diversification, and complementarities*: each governing body should do less of what it is least able to do, and more of what it is best positioned to perform. In addition, the scope and responsibilities of each body should be redefined to avoid duplication and enhance complementarities.

Based on these principles, a configuration would emerge whereby the IMFC would focus on the “outcome” of surveillance, ensuring that member countries implement good policies and coordinate their actions on

systemic issues as necessary. The Board would oversee the “production process” to ensure good quality “output,” making sure that surveillance policy is adapted and implemented to the highest standard of quality. In other words, the IMFC would be the forum of Fund members, the Board would be a body of Fund administrators, and Management would be the operational brain of the institution. Management would manage the resources that go into the production process, ensuring that staff generates sound policy advice and delivers it to member countries.

International Monetary and Financial Committee

The comparative advantage of the IMFC lies in it being the only multilateral financial body of a manageable size that represents nearly all countries and brings together top national officials with monetary and financial policy responsibilities. Viewed in this light, the Committee provides the most appropriate forum for Fund members to discuss international policy and take decisions on collective action (Portugal, 2005). It could be the vehicle to channel the conclusions of multilateral surveillance into concrete policy action by members in their respective countries.⁶⁴

The defining features of this system are that countries would commit to taking certain actions within a specified timeframe and vis-à-vis the international financial community, and that the Fund would monitor their fulfillment of these commitments. Another unique feature is that the IMFC would invest its political capital in ensuring international cooperation—a task that the Board could not discharge with the same authority. In the event of problems involving selected groups of countries, dialogues and negotiations could take place within smaller settings than the whole IMFC (as was recently the case for multilateral consultations on global imbalances). However, this would still take place under the aegis of the IMFC.

Bringing international policy cooperation under Fund auspices in this way would facilitate the Fund’s role in supporting member cooperation on the adoption and implementation of soft law. As the highest policy forum for member governments, the IMFC could monitor cooperation based on

⁶⁴A recommended country action program would be discussed by the IMFC deputies, and would be modified as appropriate based on indications from the country about its disposition to commit to the actions. The recommended program would then be submitted to the IMFC, with final decisions to be taken by consensus and only with the explicit agreement of the country directly involved in the action program. An implementation timeframe would be agreed, and implementation would be monitored in the course of each IMFC meeting, based on Fund assessments.

Fund assessments, and intervene where necessary to strengthen cooperation through direct peer pressure at the ministerial level.

To carry forward the above tasks, the IMFC would need to reorganize its working procedures. It should become much less formal and more “hands on” than is currently the case, and would require the very active support of its group of deputies. The willingness of countries (especially the leading industrial ones) to bring international policy cooperation under the Fund’s auspices through the IMFC would be an indication of their commitment to making Fund surveillance effective.

Finally, as the forum for member countries, the IMFC would identify areas where the Fund should improve its policies and services and to demand that the Board take appropriate action in response. The IMFC would hold the Board to account for the Fund’s response to its demands. For this purpose, the IMFC should rely on its own work processes and sources to identify members’ needs and concerns to be addressed by the Fund—much as the G-7 does. There would be plenty of room for an active role of the IMFC deputies in preparing for the IMFC meetings.

Executive Board

The comparative advantage of the Board lies in its continuous engagement on Fund issues, its resident status, and its two-level interaction with the institution—from within and with the authorities in member countries’ capitals. These factors give the Board a unique capacity to oversee the Fund’s production process, and to ensure the highest quality of its outputs—most notably surveillance.

One conclusion of this study and the companion MTS study (see Chapter 13 in this volume) is that the Board is discouraged from exploiting this vantage point by the inappropriate incentive structure facing its members, which limits the Board’s collegiality and independence as well as its capacity to build and use information. This incentive structure needs correction. First, the role and responsibility of directors should be clarified, making explicit that as Fund administrators they owe their primary loyalty to the institution and its membership as a whole, rather than to individual member countries. Governors should endorse this clarification.

Granting greater independence to directors would not imply disconnecting them from members or making them unaccountable to their country authorities. It would mean releasing them from the expectation (or obligation) of acting under members’ instructions. In forming their own judgments on Fund matters, independent directors would still have to consider the views of the members who appoint/elect them. But they

would also consider the views, interests, and objectives of other members and stakeholders (however diverse), and apply their own wisdom in coming to decisions. Independent directors should always be in a position to explain openly why they have taken certain decisions, and in whose interest they have done so. But they should not have to justify their decisions in terms of following “instructions” from capitals.⁶⁵

In the event that it would be possible to reduce the current size of the Board, an alternative option to strengthen its independence would be to include in the Board a number of independent non-executive directors who would be selected exclusively on merit. While these directors would not have voting power, their credibility, competence, and independence would significantly contribute to balancing the dual responsibility of the Board.

Changes to strengthen the independence of the Board would need to be accompanied by measures to improve its accountability, perhaps involving a greater role for the IMFC (see Chapter 13 in this volume). Valid proposals have been put forward recently and should be considered carefully.⁶⁶

A more independent and accountable Board would best use its administrative, oversight, and advisory capacity to ensure that the Fund would conduct quality surveillance. As guarantor of the quality of surveillance, the Board would need to make sure that staff and Management handled the policy dialogue with members with the highest standards of competence, integrity, and balance. In this regard, Board members should agree on guidelines to govern their own direct involvement in Article IV consultations, and use these occasions to draw judgments on surveillance.

As a way to improve the usefulness of Board discussions of Article IV reports, the Fund members under discussion should be represented at the Board by a delegation of top national officials, who would defend the country’s position.⁶⁷ This would ensure that members speak with adequate voice and that they provide the best possible answers to the Board’s questions. By involving national authorities at the highest level, this would strengthen their ownership of the Fund’s bilateral surveillance process.

This proposal is consistent with the approach recently adopted for the Fund’s multilateral consultations. It envisages that Management (and staff) would play an active role in facilitating policy cooperation among the national

⁶⁵To strengthen the independence and effectiveness of the Board, the job incentive structure of directors should be adapted as recommended in the companion paper on the MTS.

⁶⁶See De Gregorio and others (1999), Portugal (2005), and High-Level Panel on IMF Board Accountability (2007).

⁶⁷Under the current Articles of Agreement, such practice could already be adopted for members that are not entitled to appoint an executive director (Gianviti, 1999: 45).

authorities of the countries that are party to a global problem, and that the process would engage the highest-level national policymakers but would not require the Board's direct involvement. The Board would be kept informed of progress, and be expected to discuss a final report on the consultation.

To monitor the quality of surveillance more closely and continuously, the Board should reconsider the IEO's recommendation to set up a standing committee on surveillance (IEO, 2006). Such a committee could organize its work in separate subcommittees or working groups covering a combination of policy areas, such as monetary, exchange rate and international trade policies, fiscal policy and structural reforms, and financial sector policy.⁶⁸ Part of the committee's responsibility should be to make sure that the Fund's internal organizational structure is adequate to deliver effective surveillance.

Though the findings of this study support the idea of more regular IEO involvement in assessing the performance of Management and staff, as well as of the Board, they do not argue for a non-resident Board, for two reasons. First, the nature of the Fund's output is such that national capitals want to have tight control of its process. Under such circumstances, making the Board non-resident would diminish the Board's capacity to build broad consensus in decision making, further augmenting the power of the larger members to control outcomes. Making the Board non-resident would also reduce the chances for the Board to function as a collegial body of independent administrators accountable to the whole membership. Second, if the non-resident Board proved unable to exercise effective oversight, the Fund would then be in the hands of a very small and independent management (more so than today); the "dual" responsibility that the resident Board was intended to carry—precisely in order to balance independence of judgment and accountability to members—would be lost.

Management

From assigning clearer roles and responsibilities to the Fund's governing bodies follows that well-organized and transparent mechanisms of management accountability should be introduced. In this regard, the Board should be advised to set up a process of periodic evaluation of Management's performance.⁶⁹

⁶⁸This author recommends establishing a financial sector policy committee to strengthen the Board's oversight role.

⁶⁹The High-Level Panel on IMF Board Accountability (2007) submits valid recommendations to this effect.

References

- Boorman, J., 2007, "Governance and the International Monetary Fund: An Institution at the Crossroads?" Bank of Ghana Golden Jubilee Anniversary Symposium, Luncheon Address, August 6.
- Boughton, J. M., 2001, *Silent Revolution: The International Monetary Fund 1979–1989* (Washington: International Monetary Fund).
- Cottarelli, C., 2005, "Efficiency and Legitimacy: Trade-Offs in IMF Governance," IMF Working Paper 05/107 (Washington: International Monetary Fund).
- De Gregorio, J., B. Eichengreen, T. Ito, and C. Wyplosz, 1999, *An Independent and Accountable IMF*, Geneva Reports on the World Economy (London: Centre for Economic Policy Research).
- Frankel, J. A., 2007, "No, Because Success in Dealing with the China Currency Issue Requires International Cooperation and Multilateral Surveillance," in "Is the IMF Obsolete? A Symposium of Views," *International Economy* (Spring), pp. 12–13.
- Group of Seven (G-7), 1995, *The Halifax Summit Review of the International Financial Institutions, Background Document*, Chapter 6: "Strengthening Financial Market Supervision and Regulation," June 16 (Halifax: G8 Information Center, University of Toronto). Available via the Internet: www.g7.utoronto.ca/summit/1995halifax/financial/index.html.
- , 1997, "Financial Stability in Emerging Market Economies," Final Report to the G-7 Heads of State and Government on Promoting Financial Stability, Denver Summit of the Eight, June 20–22. Available via the Internet: www.g7.utoronto.ca/summit/1997denver/finanrpt.htm.
- , 1998, "Strengthening the Architecture of the Global Financial System," Report of the G-7 Finance Ministers to the G-7 Heads of State or Government for their meeting in Birmingham, May. Available via the Internet: www.g7.utoronto.ca/summit/1998birmingham/g7heads.htm.
- , 1999, "Strengthening the International Financial Architecture," Report of the G-7 Finance Ministers to the Köln Economic Summit, Cologne, June 18–20. Available via the Internet: www.mofa.go.jp/policy/economy/summit/1999/g7econo.html.
- , 2000, "Strengthening the International Financial Architecture," Report of the G-7 Finance Ministers to the Heads of State and Government, Fukuoka, Japan, July 8. Available via the Internet: www.g7.utoronto.ca/finance/fm20000708-st.html.
- General Accounting Office (GAO), 2001, *International Monetary Fund: Efforts to Advance U.S. Policies at the Fund*, Report to Congressional Committees, United States General Accounting Office, GAO-01-214 (Washington).
- Gianviti, F., 1999, "Decision Making in the International Monetary Fund," in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).

- Gutián, M., 1992, *The Unique Responsibility of the IMF*, IMF Pamphlet Series No. 46 (Washington: International Monetary Fund).
- High-Level Panel on IMF Board Accountability, 2007, *Key Finding & Recommendations*, April 10 (Arlington, Virginia: New Rules for Global Finance Coalition).
- Independent Evaluation Office (IEO), 2006, *Multilateral Surveillance* (Washington: International Monetary Fund).
- , 2007, *IMF Exchange Rate Policy Advice, 1999–2005* (Washington: International Monetary Fund).
- , 2008, *Governance of the IMF: An Evaluation* (Washington: International Monetary Fund).
- International Monetary Fund (IMF), 1993, *Annual Report 1993* (Washington).
- , 1995, *Annual Report 1995* (Washington).
- , 1996, *Annual Report 1996* (Washington).
- , 1999, *External Evaluation of IMF Surveillance*, Report by a Group of Independent Experts (Washington).
- , 2003, *Annual Report 2003* (Washington).
- James, H., 1995, “The Historical Development of the Principle of Surveillance,” *IMF Staff Papers*, Vol. 42, No. 4.
- Kenen, P. B., J. R. Shafer, N. L. Wicks, and C. Wyplosz, 2004, *International Economic and Financial Cooperation: New Issues, New Actors, New Responses*, Geneva Reports on the World Economy (London: Centre for Economic Policy Research).
- Lombardi, D., and N. Woods, 2007, *The Political Economy of IMF Surveillance*, Working Paper No. 17, February (Oxford, United Kingdom: Global Institutional Reform).
- Masson, P. R., and M. Mussa, 1995, *The Role of the IMF: Financing and Its Interactions with Adjustment and Surveillance*, IMF Pamphlet Series No. 50 (Washington: International Monetary Fund).
- Mussa, M., 1997, “IMF Surveillance,” *American Economic Review, Papers and Proceedings*, Vol. 87 No. 2 (May), pp. 28–31.
- Portugal, M., 2005, “Improving IMF Governance and Increasing the Influence of Developing Countries,” G-24 Technical Group Meeting, March 17–18, Manila. Available via the Internet: www.g24.org/Portugal.pdf.
- Quirk, P. J., and O. Evans, 1995, *Capital Account Convertibility: Review of Experience and Implications for IMF Policies*, IMF Occasional Paper No. 131 (Washington: International Monetary Fund).
- Sobel, M., and L. Stedman, 2006, *The Evolution of the G-7 and Economic Policy Coordination*, Occasional Paper No. 3, July (Washington: U.S. Department of the Treasury, Office of International Affairs). Available via the Internet: www.ustreas.gov/press/releases/reports/occasionalpaper3.pdf.

- Van Houtven, L., 2002, *Governance of the IMF: Decision making, Institutional Oversight, Transparency, and Accountability*, IMF Pamphlet Series No. 35 (Washington: International Monetary Fund).
- Woods, N., and D. Lombardi, 2006, "Uneven Patterns of Governance: How Developing Countries Are Represented in the IMF," *Review of International Political Economy*, Vol. 13, No. 3 (August).
- World Bank, 2004, *The World Bank: Legal Aspects*, Legal Vice Presidency, November (Washington).

13

The Design of the IMF's Medium-Term Strategy: A Case Study on IMF Governance

BIAGIO BOSSONE

The IMF's Medium-Term Strategy (MTS), published in September 2005, provides a framework to enable the Fund to respond better to the needs of its members. This study analyzes how the governance of the IMF affected the shaping of the MTS and the acceptance of the strategy by the membership. The study covers the period between the start of the strategic reflection, in June 2004, and the implementation of the MTS, at the end of 2006. It does not evaluate the soundness or adequacy of the MTS itself. Assessing how the IMF's governing bodies (International Monetary and Financial Committee, Executive Board, and Management) interacted in the process leading to the MTS is an attempt to draw judgments on the Fund's governance structure.

The preparation of this case study benefited from very helpful advice and coordination assistance by Leonardo Martinez-Diaz. Jeffrey Scott Levine and Roxana Pedraglio provided excellent advice and research assistance. The author wishes to thank the officials who made themselves available for interview.

Purpose and Scope of the Case Study

The MTS helps the Fund to respond better to the needs of both its members and the international community at large, in light of the evolving global economy. Strategic thinking is one of the most crucial tasks for any institution, both to preserve the relevance of its mission and to match instruments with objectives in a way that allows the mission to be pursued efficiently and effectively. For any institution, the governance structure has a key role in facilitating strategic thinking. Assessing how the Fund's governing bodies have interacted in the process leading to the MTS is therefore an important exercise in an attempt to draw judgments on the governance of the Fund.¹ In this regard, discussions on the MTS offer an example of the interactions taking place among the Fund's governing bodies—the International Monetary and Financial Committee, the Executive Board, and Management²—and of their effects on Fund decisions. It also offers a good example of the Fund's consensus-based, decision-making process.

This study analyzes how Fund governance has supported the shaping and design of the MTS and implementation of the strategy. It evaluates the effectiveness of the Fund's governing bodies, their interrelations, lines of responsibility, and accountability, and the process of building the consensus underpinning the MTS. The study does not evaluate the soundness or the adequacy of the strategy itself. The evaluation covers the period between the strategic reflection launched by MD Rodrigo de Rato soon after his appointment in June 2004, and the early implementation of the MTS, by end-2006.

The preparation of the study benefited from interviews with key stakeholders, complemented by desk research. The stakeholders interviewed include current and past members of the Executive Board, senior Fund staff, and officials of Fund member governments. In selecting executive directors for interviews, care was taken to include both borrower and creditor members. The interviews sought the opinions of individuals who had been directly involved in discussions on, or in the actual design of, the MTS.

The study is organized as follows. The next section briefly describes the context in which ideas matured, both inside and outside the Fund, on the need to revisit the Fund's mission and to define its strategic direction. The third section reconstructs the process since June 2004 leading to the

¹For a description of the functions and responsibilities of the Fund's governing bodies, see Mountford (Chapter 2 in this volume).

²"Fund Management" denotes the Managing Director, the First Deputy MD, and two deputy MDs.

MTS, focusing on how the governing bodies of the Fund interacted to shape the strategy. The fourth section evaluates the effectiveness of the Fund's governing bodies in setting up the MTS, and highlights a number of critical governance issues. The final section offers recommendations and conclusions.

Antecedents of the Medium-Term Strategy

In 1994, on the fiftieth anniversary of the Bretton Woods institutions, the leaders of the G-7 industrial countries called for a review of the international institutions to ensure that they were equipped to deal effectively with the challenges of the future, and, the following year in Halifax, they proposed concrete steps toward that goal.³ At the 1994 Annual Meetings of the Fund and the World Bank, the Interim Committee of the Fund's Board of Governors adopted the Madrid Declaration on Cooperation to Strengthen the Global Economy, and considered several measures to reinforce the Fund's assistance to member countries.⁴ On the same occasion, the G-24 ministers of finance issued recommendations to improve the functioning of the international monetary and financial system and its institutions.⁵

The debate took on renewed vigor in the late 1990s when financial crises in Asia, Russia, and Latin America provoked severe criticism of the Fund and prompted governments to put its reform at the center of the international policy agenda. In October 1998, the ministers and central bank governors of the G-7 agreed to support a broad range of reforms to improve the Fund's effectiveness, including reforms in transparency and accountability, and involving changes in lending policies and conditionality.⁶ In 2000, the group produced detailed proposals for IMF reform, and

³See IMF (1995: 37–41); Kenen (1994); G-7 Summit Communiqué, Naples, July 8–10, 1994; and G-7 Summit Communiqué, Halifax, June 15–17, 1995. Available via the Internet: www.g7.utoronto.ca/.

⁴See Interim Committee of the Board of Governors on the International Monetary System, Communiqué (hereafter "IC Communiqué"), Madrid, October 2, 1994.

⁵See Intergovernmental Group of Twenty-Four on International Monetary Affairs, Communiqué, April 24 and October 1 issues, 1994. Available via the Internet: www.g24.org/.

⁶See "Declaration of G-7 Finance Ministers and Central Bank Governors," October 30, 1998 and "Memorandum on the Work Program on Strengthening the Architecture of the International Monetary System." Available via the Internet: www.imf.org/external/np/g7/103098ed.htm.

the IMFC devoted a long section to the issue in its fall communiqué.⁷ The G-7 cooperated with other industrial countries and with a number of systemically relevant emerging-market countries to strengthen the international monetary and financial architecture. On behalf of developing member countries, the G-24 called in 1998 for a wide-ranging review of the international monetary system, and of the Fund's central role in it, by a task force representing industrial and developing countries.⁸

Contributions and proposals made by two commissions of eminent experts on Fund reform issues (one directed by Morris Goldstein and the other by Allan Meltzer⁹) received considerable attention. The sixtieth anniversary of the Bretton Woods institutions in 2004 motivated debates on the Fund's effectiveness in promoting international financial stability through its surveillance and lender-of-last resort functions, the Fund's role in assisting countries at various stages of economic development, and its capacity to reflect adequately the voices of all its members.¹⁰

Partly in response to calls for change, during the 1990s, the Fund reformed its operations, and contributed to the reform of the international financial system.¹¹ In 2000, following his appointment as MD, Horst Köhler articulated his vision for the future role of the Fund in a number of public speeches.¹² Starting in May of that year, Fund management and senior staff engaged in an internal exercise to define a strategic framework and, at the Annual Meetings in September, the MD submitted his agenda to the governors of the Fund.¹³ In 2001, a Fund study called for integrating periodic strategic reviews with more output-oriented budgetary practices.¹⁴

⁷See "Statement of the G-7 Finance Ministers and Central Bank Governors," Washington, April 16, 2000; and Communiqué of the International Monetary and Financial Committee of the Board of Governors on the International Monetary System (hereafter "IMFC Communiqué"), Prague, September 24, 2000.

⁸See Intergovernmental Group of Twenty-Four on International Monetary Affairs, Communiqué, April 1998.

⁹Council on Foreign Relations, 1999; International Financial Institutions Advisory Commission, 2000.

¹⁰Examples include *Reinventing Bretton Woods Committee: 60 Years of Bretton Woods*, in cooperation with the World Economic Forum (www.reinventingbrettonwoods.org/). See also "IMF at Sixty," *Finance & Development* 41(3), September 2004; Baira (2005); and Oesterreichische Nationalbank (2004).

¹¹See "IMF Reform: Change and Continuity," IMF Issues Brief 00/02, April 12, 2000.

¹²See IMF News—Speeches. Available via the Internet: www.imf.org/external/news.

¹³See Concluding Remarks by Horst Köhler, Chairman of the Executive Board and MD of the International Monetary Fund, at the Closing Joint Session of the Board of Governors, Prague, September 27, 2000. See also IMFC Communiqué, Prague, September 24, 2000.

¹⁴See "Report on IMF's Internal Budgetary Practices" (EBAP/01/43, May 23, 2001).

In 2004, U.S. Treasury Secretary John Snow, as Chairman of the G-7 finance ministers, called for a strategic review of the Bretton Woods institutions to strengthen surveillance and to launch a new non-borrowing program facility.¹⁵ Recently, the issue has become one of the main topics of debate among the G-20, who have strongly supported a comprehensive governance and strategic policy review of the Bretton Woods institutions.¹⁶ Discussions in the Fund's Board, the IMFC, and other international forums have emphasized the need to make the Fund more relevant, effective and efficient in serving the needs of its members—as the Medium-Term Strategy was intended to do—but no grand visions have marked the landscape.

Shaping the Medium-Term Strategy

In June 2004, Fund Management launched a strategic review that two years later culminated in the MTS. This section describes in detail the process through 2006, and a brief chronology of events is presented in Table 1.

First Phase: Searching for Strategic Directions

A few days after his arrival at the Fund, Horst Köhler launched the first phase of the Fund's MTS at a lunch for executive directors, when he sought views on the issues that should be addressed as priorities in a “change agenda” for the Fund. These informal exchanges produced a wide-ranging list of ideas for future work. The MD, by his own admission, had no pre-conceived strategy of his own but sought to listen and reflect on inputs and suggestions from a range of sources.¹⁷

¹⁵See “The Bush Administration's Reform Agenda at the Bretton Woods Institutions: A Progress Report and Next Steps,” John B. Taylor, Under Secretary of Treasury for International Affairs, Testimony before the Committee on Banking, Housing, and Urban Affairs, United States Senate, May 19, 2004. Available via the Internet: www.ustreas.gov/press/releases/js1662.htm. Talks within the G-7 referred also to including a “mission-accomplished” clause in the international financial institutions' statement of purpose, providing for periodic reviews to examine how the institutions fulfilled their stated purpose.

¹⁶See “G-20 Reform Agenda, 2005—06 issues.” Available via the Internet: www.g20.org/.

¹⁷In concluding the first formal discussion by the Board on strategy, the MD indicated that, at the time of his appointment, there was a clear demand outside the Fund for a strategic review of the role of the Fund. He took it as one of his duties, in which to exercise his leadership, to carry out the review directed by Management and the Board. It was his view that the Fund should be the one to define the strategic review. See “The Fund's Strategic Directions—Preliminary Considerations” (Minutes of Executive Board Meeting 04/91-5, September 27, 2004).

Table 1. The MTS Timeline

| | Date | Event |
|-----------|------------------------------|--|
| Phase 1 | June 7, 2004 | Rodrigo de Rato takes over as Managing Director (MD) of the IMF. |
| | June 16, 2004 | MD holds first informal lunch with executive directors (EDs) on Fund's strategic priorities. |
| | September 16, 2004 | Staff issues preliminary paper on the Fund's strategic direction. |
| | September 27, 2004 | Executive Board (EB) discusses staff paper on Fund's strategic direction. |
| | September 30, 2004 | MD informs the IMFC of upcoming discussions on Fund's strategic directions. |
| | October 2, 2004 | IMFC welcomes initiative and looks forward to discussion at next (spring) meeting. |
| | October 2004 | Management-staff retreat to discuss strategic direction. |
| Phase 2 | December 13, 2004 | MD establishes the Committee on Fund's Strategic Priorities (CFSP). |
| | February 11, 2005 | EB retreats to discuss Fund's strategic directions . |
| | February 22, 2005 | Staff issues briefing note for informal EB seminar on the Fund's MTS . |
| | February 22, 2005 | EB meets in informal seminar on the Fund's MTS. |
| | March 4, 2005 | CFSP issues paper on the Fund's MTS. |
| | March 28, 2005 | EB discusses Committee's paper on the Fund's MTS. |
| | April 14, 2005 | MD reports to IMFC on work progress on MTS. |
| | April 16, 2005 | IMFC confirms EB indications and sets next (fall) meeting as deadline for final MTS. |
| | June 1, 2005 | Shaping the MTS takes priority in EB Work Program. |
| July 2005 | CFSP drafts of MTS rejected. | |

Table 1 (concluded)

| | Date | Event |
|---------|--------------------|--|
| Phase 3 | July 2005 | MD takes leadership of MTS. Holds informal discussion with EDs. |
| | August 31, 2005 | EB discusses MD's draft report on the Fund's MTS. |
| | September 15, 2005 | MD reports to the IMFC on the Fund's MTS. |
| | September 24, 2005 | IMFC welcomes reports and asks for specific proposals and timelines. |
| | October 3, 2005 | MD holds informal discussion with EB on next steps. Establishes working groups. |
| | October 6, 2005 | MD's report sent to key recipients with MD's cover letter. |
| | November 9, 2005 | EB Work Program prioritizes operational plans for individual MTS components. |
| Phase 4 | March 17, 2006 | MD issues draft report on Implementing the Fund's MTS. |
| | March 20, 2006 | Working groups reports are issued to EB as background papers to the MD's draft report. |
| | April 3, 2006 | EB discusses the MD's Report on Implementing the Fund's MTS. |
| | April 5, 2006 | MD reports to the IMFC on Implementing the Fund's MTS. |
| | April 6, 2006 | MD's report sent to governors and alternate governors with MD's cover letter. |
| | April 22, 2006 | IMFC endorses the MD's report and provides important guidance. |
| | May 4, 2006 | MD's report sent to the same list of recipients of October 6, 2005. |
| | June 7, 2006 | EB Work Program indicates priorities and sequencing in MTS implementation. MD stresses importance of international outreach. |

Note: The documents cited in the table are referenced in the text below.

Based on views from executive directors, the MD instructed staff to draft a paper that would enable the Board to take a fresh look at a broad range of questions central to the Fund's future role and operations. The paper, prepared by the Policy Development and Review Department, was circulated to the Board in September 2004.¹⁸ It raised important questions in four main areas: fostering stability and growth, helping members in difficulty, achieving a more productive engagement with low-income countries, and ensuring more effective management of the institution. It also pointed to the need to enhance the persuasiveness and evenhandedness of Fund advice, strengthen incentives for reform, achieve greater consensus on the appropriate scale of Fund lending, improve assistance to low-income countries, address the "democracy deficit" for borrowing countries, and re-think the size and composition of the Board.

The Board discussion on this paper reflected the preliminary nature of the exercise considering the nature and importance of the issue and the proximity of the IMFC meeting.¹⁹ Executive directors expressed opinions but did not engage in conversation on the pros and cons of competing views. They did not seek to persuade others nor did they try to identify points of possible convergence as to where the Fund should move over the longer term. As a group, they did not provide guidance to management and staff as to the priorities or the strategic choices that they wanted the organization to pursue. One executive director noted the risk of being insufficiently radical in thinking how to improve things in the Fund. To him, the real question for such a strategy exercise was what the Fund would need to become over a 30- or 40-year period. In light of such a challenge, the same Director pushed for an early worldwide open debate, starting by posting the staff paper on the Fund website. Other Board members cautioned against the idea of web publication as being premature, and expressed a preference for the Board to have an opportunity to work on the strategy before opening the debate. Still others wondered whether an external panel should not assist the Fund in thinking about strategic directions.

As regards Fund governance, the paper pointed to the need to reconsider the role of the Board, including the balance of authority between individual directors and their capitals. Only few Board members reacted to this proposal. Two directors emphasized the need for greater Board independence, another saw no reason to discuss the issue. The MD closed the

¹⁸See "The Fund's Strategic Directions—Preliminary Considerations" (SM/04/323, September 16, 2004).

¹⁹"The Fund's Strategic Directions—Preliminary Considerations" (Minutes of Executive Board Meeting 04/91 5, September 27, 2004).

meeting with a general summing up that made clear that the process would incorporate views from Fund governors as well from outside the Fund but also stressed that the Fund should direct the strategic review itself.²⁰

At the Annual Meetings in October 2004, the MD reported to the IMFC that the Fund would take a closer look at its strategic direction, and informed the Committee that there had already been an initial exchange of views. The Committee welcomed the preliminary considerations, and looked forward to a discussion at its next meeting.²¹ But neither the Board nor the IMFC had given clear indications on how to move forward. In October, Management called a retreat with the heads of Fund departments to brainstorm on strategic ideas. Staff who were engaged in developing the new medium-term budget framework and reviewing employment compensation were asked to join in. This was perhaps the first sign of a corporate planning process that would eventually bring together the Fund's strategy-making and budgeting processes within a medium-term period.²²

Second Phase: The MTS Takes Shape

After the October 2004 retreat, the MD established the Committee on the Fund's Strategic Priorities (CFSP), to carry forward work on the MTS. Anne Krueger, then FDMD, chaired the committee, which included the DMDs and eleven senior staff participating in a personal capacity. The Committee was asked to elaborate strategic proposals and to identify needed new activities, priorities, linkages, and potential trade-offs. Its work would be based on past guidance from the Board and the IMFC, and on further staff analysis of the Fund's primary activities as well as crosscutting topics such as financial sector work and communication strategy. The Committee would also take into account work done within the Fund on other issues such as quotas, and voice and participation. Initially, the purpose was to examine what the Fund was already doing in these areas, and to align more closely the organization's activities with its budget. Over time, however, committee members developed the common view that the

²⁰See "The Chairman's Summing Up—The Fund's Strategic Directions—Preliminary Considerations" (BUFF/04/186, September 29, 2004).

²¹See "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda" (IMFC/DOC/10/04/8, September 30, 2004), and IMFC Communiqué, Washington, October 2, 2004.

²²Under strong pressure from the Board, the Fund had launched a budget reform process in 2001. See "Report on the IMF's Internal Budgetary Process" (EBAP/01/43, May 23, 2001), and the "Managing Director's Statement on Budget Reforms" (EBAP/01/43, Sup.1, May 23, 2001).

group's purview and ideas ought to be more ambitious. The Committee's outputs were not to be shared with the Board at that stage but were used to help crystallize and clarify the staff's position on the issues under discussion. The Committee's chair engaged with executive directors, and people outside the Fund, for inputs.

In early 2005, the Board and Management held a retreat on Fund strategic directions. Management proposed that the Fund focus on enhancing effective government and strong institutions in member countries and proposed a reexamination of the financing of Fund activities and its governance structure. In reacting, directors felt that Management had not provided enough clarity on how the principle of promoting effective government in member countries would guide Fund activities. Concerned that the Fund had strayed into too far a field of activities, they stressed that budget considerations called for prioritization and selectivity. They agreed on the importance of surveillance, although some felt strongly that bilateral surveillance provided little value added, especially for advanced economies, while all generally concurred that the Fund had a competitive advantage in multilateral surveillance. Several Board members emphasized the role of the Fund in overseeing international capital markets as a way to improve the Fund's capacity to address crises. Some Board members urged that consideration of the Fund's financing role and governance structure not be postponed.

Following the retreat, the CFSP produced an informal note for the Board, which outlined the considerations and steps that management envisaged for conducting the medium-term strategic review.²³ This note soon evolved into a Board paper, which was discussed in March 2005.²⁴ The paper was intended to help the Board reach broad understandings on the MTS in the context of the ongoing budget reform. The expectation was that the MTS would emerge from a series of Board discussions and provide an important input to the medium-term budgetary framework for FY 2007–09, along with the Fund's income position and the results of the reviews of the Fund's cost structure (including employment structure, compensation, and benefits).

The proposed framework stressed the importance of the Fund's role in supporting the development of "broad" institutions, going beyond those narrowly concerned with macroeconomic management and moving into

²³See "The Fund's Medium-Term Strategy—Briefing Note for Informal Board Seminar" (FO/DIS/05/19, February 22, 2005).

²⁴See "The Fund's Medium-Term Strategy—Framework and Initial Reflections" (SM/05/78, March 4, 2005).

areas such as transparency, legal systems, and governance. For Fund operations, the framework anticipated a significant degree of continuity over the proposed three-year life of the MTS, but it also identified a number of outstanding issues whose resolution could lead to major changes in policies and operations, for example, the adaptation to emerging regional currency arrangements; its future role and size as lender of last resort; its involvement in the resolution of sovereign debt problems; its role in the liberalization of capital movements; changes in its budget financing and governance structure; and the reconsideration of its interactions with other international organizations. Except for the role of the Fund in capital account liberalization, these longer-term strategic issues did not receive extensive treatment in the framework proposed.

In preparation for the 2005 Spring Meetings, the CFSP described the state of play in order to gauge the likelihood and potential direction of movement on those issues, but it did not make specific proposals. It devoted a great deal of attention to surveillance, financial sector work, and research, while it kept practically silent on quotas, voice and participation, and the role of the Board. On capital movements, the Committee took a bold and ambitious approach and recommended that consideration be given to amending the Fund's Articles of Agreement to remove the asymmetry in treatment between current and capital account restrictions, including members' ability to safeguard the capacity to impose temporary capital account restrictions for balance of payments purposes.

Executive directors had differing views on the proposed framework.²⁵ Several of them considered that it should have involved a more fundamental appraisal and forward-looking perspective on the challenges facing the Fund. Some regretted that a much-needed review of long-term strategic directions had been narrowed down to a three-year strategy framework, or noted that the proposed framework did not provide a sufficient basis to address the identified long-term issues. Others worried that the strategic review could create great expectations outside the Fund that could turn into great disappointments. In interviews for this study, some executive directors remarked that, on issues such as the role of the Fund in capital account liberalization and the development of broad institutions, Management failed to prepare the ground for a meaningful Board discussion and that, as a result, the Board did not have a chance to appreciate the proposals and make progress on them.

²⁵"The Fund's Medium-Term Strategy—Framework and Initial Reflections" (Executive Board Meeting 05/30, March 28, 2005), and "The Chairman's Summing Up—The Fund's Medium-Term Strategy—Framework and Initial Reflections" (BUFF/05/60, April 1, 2005).

The Board discussed how to move forward. On some issues, directors' views converged; on others, directors expressed very weak support, at best; and on still others, they were divided more or less evenly. Clear indications emerged on the following areas. First, the Fund's mission had to focus on promoting macroeconomic and financial stability. While agreeing on the importance of strong institutions for sound policies, directors almost unanimously considered that involvement in developing "broad" institutions lay outside the Fund's core expertise, and did not see a direct role for the Fund in this area. Second, most Board members did not wish to further explore the possibility of giving Fund jurisdiction over capital movements, although a number of them felt that the Fund should return to that issue in the future. Third, Board members agreed on the complementarities among bilateral, regional, and multilateral surveillance, and emphasized the core importance of multilateral surveillance. Fourth, they wanted the Fund to be more deeply involved in financial sector surveillance, and to integrate financial sector issues fully into its work. Fifth, Board members wanted the Fund to play its part in reducing world poverty and achieving the Millennium Development Goals. Sixth, they underscored the importance of making the most effective use of Fund resources, and urged management to develop a modern risk-management approach to all Fund operations. Finally, they stressed the need for all Fund members to be recognized with adequate voice and participation in the institution's decision-making process, although they did not agree on how to achieve this objective. Many suggested exploring options that would facilitate this even in the absence of a general increase in Fund quotas.

In summing up the discussion, the MD did not delve into the specifics of the framework, which he expected would be largely redrawn. However, he gave a clear indication on the need for the Fund to open a public debate on the strategy, and to bring in different opinions from outside—itself an issue that had raised controversy within the Board. The MD emphasized the value for the institution of listening to others and showing the world that the Fund was aware of the critical issues even if it did not have all the answers. Indeed, an energetic public communications campaign was used to support the MTS process.²⁶

²⁶Opening the debate to the outside world was a distinctive feature of de Rato's vision of the MTS process. See "Statement by Rodrigo de Rato, Managing Director of the International Monetary Fund, on the Work Program of the Executive Board—June 7, 2006" (Minutes of Executive Board Meeting 06/53-1, Final, June 7, 2006).

At the Spring Meetings of 2005, the MD reported to the IMFC on the MTS work in progress.²⁷ The IMFC confirmed the indications expressed by the Board.²⁸ The Committee expressed the expectation that the exercise would be concluded by the next IMFC meeting.

Third Phase: The Managing Director's MTS

The period after the 2005 Spring Meetings proved to be critical. Based on the Board discussion of March 2005, the CFSP produced a new version of the strategy paper by mid-year. But the new draft failed to pass staff reviews, which deemed its messages unclear and lacking a unifying theme. A second draft, too, was rejected and the MD decided to take the process into his own hands. By then, he had heard various views on strategy from several quarters, and his own views had matured; he wanted to force the institution to confront certain fundamental issues. At a lunch with executive directors in July, he informed them of the broad outlines of the MTS paper that would go to the Board by end-August. He passed his thoughts on to his advisor, who put together a new text, drawing also on previous Board discussions, inputs from external observers and country authorities, and notes from executive directors. Since some important issues were still controversial, the text was conceived in a way that would facilitate widespread acceptance. The new framework contained proposals to address pressing demands from members, but did not include deal-breaker points.

The result was “The Managing Director's Draft Report on the Fund's Medium-Term Strategy.”²⁹ This document started by recognizing that, if the Fund was to remain in step with a rapidly changing world, it had to single out a credible organizing principle that defined the institution's mission and prioritized its activities. This principle was that the relevance of the Fund in today's world lay in its capacity to help members meet the economic challenges of globalization. In practice, this meant different things to different members. Members' differing needs provided a basis for the Fund to prioritize its outputs within its well-defined mandate in the macro-economic area. Using this framework, the document pointed to the Fund's new tasks including strengthening surveillance, adapting Fund operations

²⁷See “Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda” (IMFC/Doc/11/05/5, April 14, 2005).

²⁸See IMFC Communiqué, Washington DC, April 16, 2005.

²⁹SM/05/332, August 23, 2005. This soon became “The Managing Director's Report on the Fund's Medium Term Strategy to the Members and Associates of the IMFC” (IMFC/Doc/12/05/2, September 15, 2005).

to new challenges and needs in member countries, helping members build institutions and capacity, addressing the issue of fair quotas and voice, and prioritizing and reorganizing Fund work within a prudent medium-term budget. Unlike the previous strategy papers, the new document was concise and carried a convincing message and clear recommendations. Its style was more appealing than that of traditional Fund documents—as recognized by external observers and the media. The proposed strategy was broad and general, and succeeded in aligning all parties' preferences as it offered something relevant for each to buy into. It put together the many elements of the Fund's work and made the case for the Fund to do more on each of them; it clarified priorities and made it easier to understand where resources would need to go. It did not entail, however, a grand reform of the Fund since it had not evolved out of a major reconsideration of the international monetary and financial system.

While the document was deliberately general to avoid polarized reactions within the Board, it did commit to some new steps. One was the idea of using the Fund as a forum for multilateral dialogue on pressing global issues, possibly leading to international cooperative solutions. Another was the intent to focus Fund surveillance more systematically on regional developments, including through increased dialogue with regional institutions. New provisions in the area of surveillance were that staff reports on systemically important countries would spell out the regional and global implications of country policies and long-term trends, and that the Fund would report on the reasons why advanced and systemic countries would not accept its policy advice.

The document also proposed to move forward on some controversial issues. It used the space created by executive directors' earlier statements, including those that, while reflecting minority positions on specific important issues, could at least be taken as reasonable claims for keeping the issues open for discussion. The document thus proposed to start a second round of debate on a new financing instrument for emerging market countries, to take more focused action on low-income countries, and to reconsider the Board's role.³⁰

³⁰The MD's draft report reopened the issue of the role of the Board, after this had been dropped from the previous draft of the strategy framework. This time, however, the issue was posed differently. While previously it had centered on reconsidering the size and composition of the Board, including the balance of authority between individual executive directors and capitals, it now concerned the balance between the effectiveness of the Board's oversight responsibilities and its ability to focus on broader issues.

The document also proposed that consideration be given to modifying the format of the IMFC meetings, in order to allow the IMFC to play a stronger role in formulating responses to global problems. On quotas and voice, the document stressed the importance of addressing these issues with a view to protecting the legitimacy of the Fund as a universal institution, and referred to the current allocation of IMF quotas as unsustainable and requiring urgent action. On capital account liberalization, while recognizing the divisiveness of debating the need to make this an explicit purpose of the Fund, the document insisted on the Fund being in a position to advise members on how best to manage the process and proposed to study the issue further. The document made controversial proposals for more strategic use of communications; it put forward the MD's vision of the Fund becoming an integral part of the public debate on reform in member countries, bringing to bear the power of ideas and cross-country experience through appropriate communications policies.³¹

The Board was appreciative of the MD's draft report. It accepted globalization as the unifying principle to design an operational framework for Fund activities over the medium term. On the controversial issues, executive directors reiterated the positions they had expressed earlier, but none objected to doing further work in an attempt to find grounds for consensus. The Board agreed on the need to prioritize and scale back some activities. It offered no indications on the role of the Board or the IMFC.

At the 2005 Annual Meetings, the IMFC supported the priorities set forth in the document and looked forward to specific proposals and timelines on the main tasks identified in the MTS, within the context of the Fund's medium-term budget framework and the staff compensation review. Statements by the IMFC members reinforced the points that had been raised by the executive directors.³²

Following its endorsement by the IMFC, the MD's report was sent in early October to a long list of individuals or groups with a influence on policies: Fund governors and their alternates, select heads of state, heads of intergovernmental (including regional and sub-regional) organizations, ministerial heads of the G-24/20/11, think tanks and universities, par-

³¹The MD made this vision clear at the Board discussion of the report. See "Draft Report of the MD on the Fund's Medium-Term Strategy" (Minutes of Executive Board Meeting 05/75-2, August 31, 2005).

³²See IMFC Communiqué, Washington, September 24, 2005; "Twelfth Meeting of the International Monetary and Financial Committee—Record of Discussion—IMF Objectives and Medium-Term Strategy, 34-48," Washington DC, September 24, 2005; and statements by IMFC members. Available via the Internet: www.imf.org/external/am/2005/imfc/index.htm.

liamentarians, heads of prominent international civil society organizations, journalists, private sector leaders, and other selected individuals. Responses were encouraging.

Fourth Phase: Implementing the MTS

The next step was to make the strategy operational. A new document was to be produced within six months, bringing open issues to closure and working out specific proposals that would fit within the institution's limited budget—which also had to cope with a sharp fall in Fund income. In October 2005, at an informal meeting, the MD discussed with the Board the next steps following the IMFC endorsement of his report. He indicated that the Fund's MTS should not be constrained by budgetary concerns, and that tradeoffs resulting from the budget limitations would be considered by management and the Board at a later stage. The MD established six working groups and tasked them with developing recommendations and operational guidance on the core strategy issues: surveillance, emerging market economies, low-income countries, Fund governance, capacity building, and organization. The Board supported the proposed next steps.

The working groups were to use the MTS report as their terms of reference to produce a set of concise papers for management and were instructed to consult with executive directors as needed. They made several presentations to management and received feedback from the MD. Their reports were submitted to the Board as background papers to the MD's report.³³

Staff interviewed for this case study described the MD was now fully engaged in the process. From this time on, the Fund made continual efforts to engage members and the broader public in discussions of the strategy. The External Relations Department chose suitable counterparts for this purpose, including policy experts, academics, civil society, and media organizations worldwide, and the MD tried to include MTS discussions during his regular trips.³⁴ The reception from external audiences was positive.

The new report by the MD contained a number of ideas to make surveillance more effective; to strengthen the role of the Fund in preventing and responding to crises in emerging market countries; and to improve the Fund's support to low-income countries and assistance to reforms through

³³See "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (SM/06/112, March 17, 2006); and "Implementing the Fund's Medium-Term Strategy—Working Group Reports" (SM/06/114, March 20, 2006).

³⁴On the Fund's communication strategy for the MTS, see IMF (2006: 109–11).

capacity building.³⁵ Overall, the strategy purported to be budget-neutral, with proposals that would fit within a path of declining real spending. More generally, the MD's report indicated that a new business model was needed to place the Fund on a sound long-term financial footing. Since this would require a broad political consensus, the document proposed to establish an external committee, headed by an eminent personality, to make recommendations.

Most of the report's recommendations drew on the proposals of the working groups. Some were included at the MD's instigation, such as the multilateral consultation procedure, the new modalities to enhance regional surveillance, the special emphasis on integrating macroeconomic and financial market analyses, and the selection procedure for the MD. The document made a passing reference to the need for a more balanced role of the Board.

The Board discussion was constructive.³⁶ There was now a better grasp of the issues to be addressed in moving to implementing the MTS and executive directors offered a number of suggestions on operational modalities. They supported the idea of a new multilateral consultation and a number of them underscored that the Board and the IMFC must be part of the process—as proposed by the MD. Executive directors supported the proposal to revisit the modalities for exchange rate surveillance. They underlined the importance of effective communications to the authorities and the broader public, while stressing the need to be mindful of the Fund's role as confidential advisor to its members.

On emerging markets, Board members agreed that the strategic review provided a unique opportunity to clarify the framework for Fund financing, and they supported the proposal to advance work on a new financing instrument. The Board supported the proposals concerning low-income countries, and accepted the MD's recommendation to look into Fund governance issues. Most executive directors endorsed the proposed two-stage approach to quotas and voice as the best hope for moving forward. Further, the Board accepted the budgetary framework proposed by the MD (although some members expressed a preference for a more ambitious stance), and acknowl-

³⁵Importantly, in the area of surveillance, the document launched the idea of multilateral consultations as a new supplemental procedure to promote debates on issues of systemic relevance, and proposed to review the 1977 Decision on Exchange Rate Surveillance to update Fund guidance on exchange rate regimes.

³⁶See "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (Minutes of Executive Board Meeting 06/33-1, April 3, 2006), and "The Chairman's Summing Up—Implementing the Fund's Medium-Term Strategy" (BUFF/06/66, April 7, 2006).

edged the contribution that an external committee, headed by an eminent personality, could make on the new business model issue.

In early April 2006, the MD's report was sent to all Fund governors and alternates. In the cover letter, the MD explained that the purpose of the report was "to bring more precision to the ideas" set out in the MTS and to shift the focus to its implementation. The IMFC endorsed the MD's report at its Spring meeting and at the instigation of the IMFC chair, the Committee proposed a new framework for implementing surveillance under the modalities indicated in the Fund's report, and called for rapid implementation.³⁷

Since the 2006 Spring Meeting, intense work has been done to implement key aspects of the MTS, especially in the areas of surveillance and quotas and voice.³⁸ On surveillance, the new multilateral consultation was launched, the Board reviewed the Fund's 1977 Decision on Surveillance over Exchange Rate Policies,³⁹ and it discussed the IMFC's proposal for setting a "remit" for surveillance based on a selected set of objectives and priorities.⁴⁰ Progress was achieved on quotas and voice, and specific proposals were included in the report and resolution from the Executive Board to the Board of Governors.⁴¹

Shaping the Medium-Term Strategy: How Did Governance Work?

This section assesses the role of each of the governing bodies in shaping the MTS, based on the reconstruction of the process offered above. The process took place in the context of a growing demand from Fund members for a Fund that would regain relevance by becoming more effective and efficient in serving the needs of the global economy. The process involved a strategic review consisting of the identification and elaboration of key issues, underpinned by the search for a unifying theme that would

³⁷See IMFC Communiqué, Washington, April 22, 2006. For details of this IMFC proposal and the problems it raised, see Bossone (Chapter 12 in this volume).

³⁸See "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda" (IMFC/Doc/14/06/2, September 14, 2006).

³⁹See www.imf.org/external/pubs/ft/survey/so/2007/NEW0618A.htm.

⁴⁰See Chapter 12, which discusses this proposal.

⁴¹See "Report of the Executive Board and Proposed Resolution on Quota and Voice Reform in the International Monetary Fund" (SM/06/293, Sup. 1, September 9, 2006).

embody the Fund's mission, and be revisited as necessary in a fast-changing global economic environment.

Overall, the Fund's governing bodies delivered a long-awaited medium-term strategy for the institution, which all the parties involved broadly supported. The resulting strategy is not a grand reform of the IMF but an extended work program, with some innovative components organized under a unifying strategic orientation. It seeks to enable the Fund to respond more effectively to the financial and policy needs of its members in the context of an increasingly interconnected world economy.

Before turning to the role of each governing body, a general governance issue emerging from the preparation of this case study should be mentioned. As documented in the above sections, the Board supported the final MTS. However, in interviews for the case study a number of executive directors revealed significant discomfort that the consensus based culture of the Fund was being eroded, citing as examples decisions on important issues under the MTS. The feeling of discomfort communicated in the interviews was much stronger than could be sensed from reading Board records. While the subjective elements behind verbal communications cannot be discounted, the revealed discomfort could in fact be an indication of a more general governance problem of the institution, whereby fundamental concerns on the Fund's decision-making process do not find their way through the Board and as a result are not addressed by it.

International Monetary and Financial Committee

The previous section illustrates the limited role that the IMFC has played in setting the Fund's strategy. Strategic initiatives typically do not originate within the IMFC, nor does the IMFC articulate these initiatives independently of advice from the Board and management, since the Committee is not organized to perform this task.

The MTS originated from several sources. It required tight management and a centralized capacity to solicit and coordinate various inputs from members and stakeholders. The IMFC advised the Fund on additional work needed and, when the work was completed, it noted the existence of consensus to endorse the initiative, which then became a new Fund mandate. It imparted discipline to the exercise, inducing the Fund to be responsive and deliver on its work program as and when expected. Finally, by asking the Fund to report on the MTS progress periodically, the IMFC exercised an important function of global accountability.

Many observers believe that, as a ministerial entity, the IMFC serves the important function of legitimizing—on behalf of Fund members—

the strategic directions that the Fund set out to pursue. In other words, the IMFC's endorsement amounts to Fund members taking ownership of these directions. In the case of the MTS, its endorsement by the IMFC was necessary to grant it full legitimacy. Yet, this role of the IMFC raises important questions of governance, in particular as regards the IMFC's relationship with the Board.

- *Accountability.* Can the IMFC be given the responsibility to hold the Board to account for its performance, given that many Fund initiatives are endorsed by the IMFC and that many directors receive instructions from Ministers in the IMFC? It would appear that currently, the Board doesn't have the independence from the IMFC that is needed for the latter to hold the former accountable. More generally, how can the IMFC take an independent stance on Fund performance, and hold the Fund to account for it, if at the same time it is integral to the Fund's decision-making process? If the IMFC were given such responsibility, its work processes would need to be separated from those of the Board.
- *Strategy setting.* If the IMFC were to play a greater role in setting strategic directions for the Fund, how should it organize its operations in order to perform such a task effectively? Currently, the IMFC Governors meet for only a few hours every six months, and therefore they can only be expected to endorse high-level strategic goals. This leaves considerable scope for the role of the Board, ranging from agreeing on a detailed strategy designed by Management, to being directly involved in its design. How would a greater role of the IMFC reflect on the role of the Board? Should not the IMFC have to rely more on the group of deputies to prepare its discussions? In such a case, how could overlap be avoided between the IMFC deputies group and the Board? If, in the end, the Board would have to do the job, what would be the real value added by the IMFC?

Executive Board

The Board contributed to the MTS framework through a number of informal and formal discussions. It did not originate initiatives of its own, and mainly reacted to Management proposals. The Board was where Fund members could think through Management proposals for new strategic directions, expressing members' preferences and contributing ideas for shaping the strategy framework. The Board provided guidance on MTS issues, especially those on which member governments held strong views. The continuous interaction of Board members with capitals and man-

agement facilitated the search for strategies that addressed the specific demands from member countries, as revealed by the resulting MTS. The Board ensured that the MTS would be integrated with the Fund's medium-term budget, so that decisions on resource allocation and strategic priorities could be taken jointly. The Board also demanded that the Fund's revenue sources be reconsidered, especially in a situation of declining income.

The MTS story shows that, while the Board cannot draw up a strategy, it reacts to ideas and proposals, and defines the contours of what is politically feasible. In so doing, it provides direction to those who draw up the strategy. However, could the Board have performed these tasks more effectively? This question can be addressed from two angles: one is the way the Board forms its deliberations; the other is the factors that affect its performance.

Board Deliberations

When reviewing the records of Board discussions on strategy issues, one notices the depth and level of detail of Board members' interventions. The Board analyzes issues and their possible implications with a significant degree of knowledge, insight, and institutional wisdom. At times, Board discussions are genuinely constructive. Important comments are contributed extemporaneously by individual members, especially those who are willing and able to speak openly and candidly. However, these interventions often fail to translate into a true dialogue. One cannot often see the dynamics of juxtaposing views, the "give and take," the disagreements, or the efforts to persuade, that are typical of a dialogue and that would be expected from a collegial body that seeks to achieve common understandings and to deliberate on a consensual basis.

The records of the Board discussion of the MTS framework show that, on a number of key issues, some Board members expressed opinions that were either contrary to the majority view or challenged the conventional wisdom. These opinions did not succeed in triggering a discussion or even in soliciting reactions from other members of the Board. For example, while most Board members practically ruled out the possibility of the Fund's involvement in supporting the development of "broad" institutions in member countries, an executive director noted that this was tantamount to ignoring the overwhelming evidence linking institutions to growth. There was no reaction from others on the Board. Another example refers to management proposal to give the Fund jurisdiction on capital account liberalization. While the proposal was rejected by most executive directors, one director noted that closing the discussion on the subject was premature, since many countries were liberalizing their capital

accounts and it would be important to see if they were doing so in an orderly fashion and with proper advice from the Fund. Another director defended the proposal, arguing that it would prevent members from introducing arbitrary restrictions to capital movements that would impose unfair costs on others. While both points were quite noteworthy, nobody acknowledged them. On multilateral surveillance, an executive director envisaged a role for both the Board and the IMFC in shaping broad consensus on coordinated policy actions, and a clear commitment by members to take agreed-upon actions within a specified timeframe and under Fund monitoring. This intervention, too, received no rejoinders. In none of these cases did the Chair attempt to generate a discussion.

Because Board discussions are composed largely of bilateral communications from Board members to management rather than in multilateral exchanges, it may not be clear where the Board's consensus is on given issues and what the Board intends should be done about them. As Chair of the Board, Management then takes on a large role not only in extracting the overall sense of where the Board stands on issues, but also in shaping that overall sense. Management can deliberately live with ambiguity, because this gives it more room to maneuver to achieve its objectives—and this is where the dual role of the MD, as both chief operating officer and Chair of the Board, may embody a conflict of interest.

When Board members do not set the Board's dynamics toward consensus building, the risk emerges of arriving at decisions based on narrow majorities. As some interviewees have noted, this tends to happen in a context where the Board is polarized, e.g., between developing and developed countries.⁴² This trend in decision making jeopardizes the cooperative spirit that protects minorities, and undermines the legitimacy of the institution. In interviews, some Board members signaled this as a real concern.

Several factors make dialogue difficult for the Board. Its large size is often cited: it is hard to have deep conversations with 24 people around a table. Another factor is the propensity of Board members to speak on behalf of their capitals, which may limit directors' ability to build collegial visions through dialogue with one another. In the MTS discussions, examples of this can be seen with respect to the role of the Fund on capital account liberalization, contingent financing, and the Fund's leverage over developed countries. The same tendency may also explain why some important issues were left out of the review leading up to the MTS,

⁴²For an authoritative comment on the global political mood underpinning the work of the Fund, see "Interview with Jacques Polak, "If the Bretton Woods conference were to be held now, it would not succeed," *IMF Survey* 33(16), August 23, 2004.

e.g., the role of the Fund in capital account crises and their resolution, or evenhandedness in the conduct of surveillance.

Perhaps the practice of soliciting written statements from executive directors ahead of Board meetings—a practice initially intended to provoke more debate at the meetings—has turned against its original objective. Written statements (and statements read from scripts) reflect preconceived opinions. Once issued, they create rigidities from which their signatories may find it difficult to depart. The rigidity gets worse when Board members have negotiated or cleared their written statements with their capitals—a practice that limits even further their freedom in the discussion. Ultimately, the power and the very possibility of a dialogue are diminished, and so is the collegiality of the Board. This, in turn, may be another reason why many substantive points in individual statements are not even discussed at meetings, and why unconventional or contrarian views from individual Board members often fail to evoke peer reactions even if they raise interesting issues.

Factors Affecting the Board's Performance

Some of the factors just discussed interact with another key feature of the Fund's Board: its typical reactive attitude, as opposed to the capacity to be proactive. In the development of the MTS, the Board expected management to formulate the strategic direction. Management selected the topics, proposed the guiding principles, and largely determined the priorities for discussion. Only when management came up with proposals did Board members express their views and opinions, which consisted largely of reactions to the issues elaborated by the staff.⁴³ This *modus operandi* deprives the Fund of a significant potential for new stimuli and ideas.

Other factors may affect the Board's ability to generate genuine dialogue. One is the professional profile and caliber of executive directors. While corporate boards nowadays place great emphasis on the selection modalities for board directors, the Fund's Articles of Agreement and By-Laws do not. Fund members are responsible for selecting executive directors, but are not bound by (nor do they necessarily have) mechanisms to ensure that individuals are systematically selected with the right mix of skills, seniority, experience, and wisdom. There is therefore no guarantee that members make all efforts to pick the best candidates.

Another factor is the rapid turnover of executive directors. This discourages the accumulation of knowledge and institutional memory, making it

⁴³Only at its retreat in early 2005 did the Board entertain a discussion on strategic issues with two external eminent persons.

more difficult for the Board to exercise its functions and exert its influence. It is not by coincidence that extemporaneous, deeper, and in general more authoritative interventions in Board discussions tend to come more frequently from directors with more seniority and familiarity with Fund issues.

Finally, the independence of executive director may be weakened by incentives facing their office staff. Some of their advisors may have an interest in joining the Fund upon termination of their service with the Board. It was noted in interviews that this may motivate some advisors not to challenge staff views when advising their directors on issue positions.

Management

At the start, the MTS process had difficulty producing satisfactory results. Some of the executive directors interviewed for this study criticized the lack of a well-organized preparatory phase, which would have systematically engaged the Board in consultations before converging on a framework. Some noted that, when the Board received the first staff paper on the MTS, executive directors were not even aware that staff had been asked to produce a paper on the subject. The paper was submitted for Board discussion only a few days before the IMFC meeting and short of the Fund's minimum circulation period.

Subsequently, directions were pursued that proved to be impracticable or undesirable. At times, it was unclear even to participants where the process was heading. In interviews for this study, senior staff involved in the process referred to that initial stage as "dysfunctional" and "leading nowhere." Members of the staff and the Board noted that the MD was too distant from the process until he decided to take direct charge of it.

To be fair the process was rather new for the Fund. Speaking of the CFSP, staff interviewed noted that it was probably the first time that heads of departments engaged collectively, in a personal capacity, in candid exchanges on the Fund's strategic direction. However, internal resources could not be directed to produce a satisfactory strategy framework until the engagement of the MD. He did so under tight conditions, as the expected deadline to finalize the MTS drew closer and the preparation work until then had not progressed as desired. Insights on the management of the MTS process have implications for the Fund's governance.

An Open Process

Initially, the MTS process was too "internal" and "closed." No attempt was made to seek input from the outside world; it was very much as if only the Fund could know best how to review its own strategic direction. At the

beginning, even consultations with executive directors were not structured to obtain their views and those of their capitals, and the CFSP working groups were not expected to speak to executive directors at that stage. Eventually, the chair of the CFSP appointed leaders of the working groups from among staff with no background on the themes assigned to the groups. This, however, did not prove to be good enough to bring new perspectives and some participants noted that it actually weakened the process. Given the diversity of its stakeholders, and the cooperative nature of its mission, the Fund needs to have an open dialogue with the outside world and the community of experts engaged in identifying the relevant issues and to explore them from a wider perspective. The MTS process was eventually opened up, but only after the broad parameters of the review had been set.

A Political Process

Setting the Fund's strategy is as much a political as a managerial and technical process—political in the sense that the strategy must reflect a balanced set of interests and objectives expressed by a multiplicity of diverse stakeholders, and yet must remain fully focused on the mission of the institution. The process therefore requires leadership with a capacity to balance priorities across the range of identified needs, and a sense of what is politically and practically feasible. It is appropriate that the MD exercise this leadership, but in a consensus-based institution like the Fund, executive directors must complement this role by providing guidance and feedback throughout the process.⁴⁴ Because a good strategy is one that effectively caters to the needs of the Fund's stakeholders, it is crucial to know who they are and what are their needs and interests.

General Observations

The Fund produces global public goods whose production requires close cooperation from members and their close involvement in controlling the production process. The governance system needs to hold members accountable to each other for the actions they commit to take, and for the spillovers of their actions on other members. This requires a corporate governance system that allows for frequent monitoring, feedback, and error

⁴⁴Some of the Board members interviewed indicated that the MD had not sufficiently consulted the Board and its members; other Board members declared themselves satisfied with the consultation process.

correction. This explains why the Fund's governance system includes such key and unique elements as a resident Executive Board in continuous session, a MD with a dual capacity as chief executive officer and chair of the Board, and executive directors with dual responsibility as Fund administrators and representatives of member governments.

Such a system also has its drawbacks. It causes overlapping of roles, blurs lines of responsibility, and limits the freedom of individual organs to take decisions. One consequence of this may be the Board's tendency to micro-manage decisions, thus stepping into management's turf and diverting resources away from broader and more strategic tasks. Finally, a governance system characterized by multiple and continual interactions among its constituent bodies makes it difficult to untangle who is responsible for which decision, thereby diminishing the Fund's overall accountability and transparency.

Provisions for Reviewing the MTS?

Since reality evolves constantly, a strategy should be a living document and subject to periodic evaluation. While each component of the MTS is now subject to its own regular departmental activity cycle, management and the Board do not seem to have adopted a procedure for a regular holistic review of the MTS. Nor is there a provision for someone within the organization to act as the official "gatekeeper" of the MTS. This task would entail keeping track of internal progress and external developments of possible relevance to the strategy, for protecting the functional relationships of the MTS components (guarding against unwarranted dominance of some components over others), and monitoring their implementation. Staff members interviewed for this study assumed that either the Policy Development and Review Department or the office of the MD would hold such responsibility, but did not know whether formal responsibility had been assigned.

Conclusions and Recommendations

The development of the MTS was a complex, and internally-driven process. It was not well organized. The process began with a phase of identification of key issues involving reflections by staff and management, with feedback from the Board. Overall, the Fund's governing bodies interacted constructively and the process eventually produced a strategy document that was accepted by the membership.

This case study concludes that a better organized, more open and inclusive process, handled directly by the MD from the outset, and benefiting from a more collegial and proactive Board, might have led to a broader and deeper review of the Fund's strategic issues, thus presenting members with a wider range of options for strategic direction. With this conclusion in mind, a number of recommendations on Fund governance follow.

The Executive Board

Fund members should consider five actions:

(1) *Strengthen the independence, accountability, and knowledge base of the Board.* Greater independence of executive directors would be a prerequisite for the Board to think strategically in a more collegial way, engage in true dialogue, and take a more proactive guiding role. Granting greater independence to executive directors would not imply disconnecting them from members or making them unaccountable to them. It would mean releasing directors of the expectation of acting under members' instructions. In forming their own judgments, independent executive directors would need to consider the views of the members who appoint/elect them, as well as those of other members and stakeholders.

An independent Board would require a lower turnover of Board members. Rapid turnover affects the Board's independence by limiting its institutional memory. It also erodes the Board's store of knowledge and experience, making it more difficult to engage effectively in strategic thinking or to play a proactive role in strategy making. Currently, the five appointed executive directors, who hold collectively around 39 percent of the voting power, have no fixed term and serve at the pleasure of their government administrations. All other directors have a two-year term, after which they can be dismissed. A system in which appointed directors were appointed for a fixed term; terms were longer for all directors; re-elections and re-appointments were not allowed; and the renewal of the Board took place in a staggered fashion would strengthen the independence and knowledge base of the Board. Such changes would need to be accompanied by measures to improve its accountability (De Gregorio and others, 1999; Portugal, 2005).

Finally, the Board may want to consider revising the role and duties of the advisors to the executive directors, and extending them the "cooling off" rule to Fund employment that applies to executive directors and their alternates.

(2) *Introduce uniform and adequate criteria for selecting executive directors.* Criteria should be identified with a view to achieving a selection of candidates with high standards of skills, seniority, experience, independence and wisdom, and a strong capacity to act in the broader interest of the institu-

tion. The Board should be responsible for ensuring that members comply with established criteria. Executive directors should be accorded high status, both vis-à-vis Management and in their own countries. Finally, their responsibility as Fund administrators with primary loyalty to the Fund and its membership as a whole should be clearly spelled out, and endorsed by the governors of the Fund.

(3) *Reduce the size of the Board.* This should be considered as part of a governance reform to improve the Board's collegiality, efficiency, and effectiveness. The quality of any strategy discussions (and indeed of any discussions) would likely benefit from a smaller Board.

(4) *Strengthen the role of the Board in setting the Fund's strategy.* A good strategy can only be crafted by a few creative minds, implying that today's Board is too large to perform such a task. Nothing prevents the Board from regularly engaging in strategic discussions and trying to project its vision for the Fund over the medium and long term. This exercise should not just happen in the context of semi-academic internal seminars, but should be integral to the role of the Board. Strategic discussions should take place with the assistance and participation of staff and Management, and should involve external experts. This would help to introduce broader discussions and better position it to understand new trends in a timely fashion, and thus facilitate a more effective adaptation of the Fund's role and instruments to emerging problems.

(5) *The Board should undertake a periodic self-evaluation of its performance.* The evaluation should cover the Board's role in strategy making, and should be assisted by external experts (as proposed by the High-Level Panel on IMF Board Accountability, 2007). The practice of self-evaluation would provide Board members with an incentive to strengthen the quality of their interventions and collegial interactions.

International Monetary and Financial Committee

Two recommendations follow from the discussion of critical questions regarding the working of the IMFC. First, in the event the Board were granted greater independence, the IMFC could play a key role in holding the Board to account for its performance. This would require clarifying the corresponding mandates of the IMFC and the Board, and would involve a significant reorganization of the Committee's mode of operation. The Committee could meet more frequently to probe the Board on its work program and performance. This would make the Board more accountable. Second, with a more independent Board, the IMFC could be the place

where members express their strategic considerations and preferences, and indicate the way they would like the Fund to address them.

Management

The analysis of the MTS process points to several areas where Management could take action to strengthen Fund strategy making.

(1) *Improve the selection process for the MD.*⁴⁵ As this case study suggests, the dual capacity of the MD requires not only strong managerial skills but also a considerable sense of strategy, a sharp understanding of what is politically feasible, a positive attitude toward consensus building, and solid negotiation capacity and leadership. The selection process should therefore involve clear criteria to help members identify the right candidates for the job. Adequate criteria should also be introduced for the selection of the other members of the Fund's top management team. These criteria should be specific to the responsibilities and functions that are assigned to each member of management.

(2) *Members should consider decoupling the roles of CEO and Board Chair.* The dual capacity of the MD may lie at the origin of two problems. The first is an excessive acquiescence of executive directors to the Chair of the Board. The second is a potential conflict of interest on the part of the MD who submits proposals to the Board but is not in a position to challenge these proposals as would be the case if s/he only had the responsibility of chairing the Board. In the MTS case, a Board at arms' length from management might have felt better positioned to prompt the latter to handle the strategy-making process in a more organized fashion.

Decoupling the two roles would strengthen the Board vis-à-vis the CEO, giving Board members more leeway to challenge the CEO and to hold the CEO to account for the performance of staff and Management. Decoupling would also allow for a clearer separation and attribution of responsibilities between the Board and Management, limiting the Board's micro-management, and giving it more time and latitude for strategic thinking. On the other hand, decoupling the roles of the MD might tend to raise tensions between the Board and management and make their relation more conflict-prone, thus weakening the consensus-building function that, in principle, is integral to the dual role of the MD.

⁴⁵See Peretz (Chapter 11 in this volume) and High-Level Panel on IMF Board Accountability (2007).

References

- Buira, A., ed., 2005, *The IMF and World Bank at Sixty*, Prepared for the G-24 (London; New York: Anthem Press).
- Council on Foreign Relations (CFR), 1999, *Safeguarding Prosperity in a Global Financial System: The Future Financial Architecture*, Report of an Independent Task Force (Washington).
- De Gregorio, J., B. Eichengreen, T. Ito, and C. Wyplosz, 1999, *An Independent and Accountable IMF*, Geneva Reports on the World Economy (London: Centre for Economic Policy Research).
- Group of Seven (G-7), 2000, "Strengthening the International Financial Architecture," Report of the G-7 Finance Ministers to the Heads of State and Government, Fukuoka, Japan, July 8. Available via the Internet: www.g7.utorontp.ca/finance/fm20000708-st.html.
- Gianviti, F., 1999, "Decision Making in the International Monetary Fund," in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).
- High-Level Panel on IMF Board Accountability, 2007, *Key Finding & Recommendations*, April 10 (Arlington, Virginia: New Rules for Global Finance Coalition).
- Independent Evaluation Office (IEO), 2008, *Governance of the IMF: An Evaluation* (Washington: International Monetary Fund).
- International Financial Institutions Advisory Commission (IFIAC), 2000, *Report of the International Financial Institutions Advisory Commission to the U.S. Congress*, March (Washington: Government Printing Office). Available via the Internet: house.gov/jec/imf/ifiac.htm.
- International Monetary Fund (IMF), 1995, *Annual Report 1995* (Washington).
- , 1998, *Annual Report 1998* (Washington).
- , 1999, *Annual Report 1999* (Washington).
- , 2000, *Annual Report 2000* (Washington).
- , 2001, *Annual Report 2001* (Washington).
- , 2003, *Proposals for a Sovereign Debt Restructuring Mechanism (SDRM): A Fact Sheet*, January (Washington). Available via the Internet: www.imf.org/external/np/exr/facts/sdrm.htm.
- , 2006, *Annual Report 2006* (Washington).
- Kenen, P. B., ed., 1994, *Managing the World Economy: Fifty Years After Bretton Woods* (Washington: Institute for International Economics).
- Oesterreichische Nationalbank, 2004, *60 Years of Bretton Woods: The Governance of the International Financial System—Looking Ahead*, Proceedings of the Oesterreichische Nationalbank Workshops, No. 3, June 20–22 (Vienna).

Portugal, M., 2005, "Improving IMF Governance and Increasing the Influence of Developing Countries," G-24 Technical Group Meeting, March 17–18, Manila. Available via the Internet: www.g24.org/Portugal.pdf.

Van Houtven, L., 2002, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*, IMF Pamphlet Series No. 53 (Washington: International Monetary Fund).

14

IMF Governance and Financial Crises with Systemic Importance

RANDALL W. STONE

Crises in systemically important countries, whose failure is likely to lead to contagion with far-reaching consequences for the international financial system, pose acute governance problems because of the stakes involved, the amount of resources that must be mobilized, and the need for rapid decision making. During crises in systemically important countries, the locus of effective decision making shifts outside of the formal organization of the IMF to forums that better reflect the international distribution of resources. Because crisis management involves high-level political decisions about exceptional access to Fund resources, and because it may involve matching official financing or coordinated pressure on financial institutions to extend private financing, G-7 Deputies (deputy ministers of finance with responsibility for international issues) usually play a central role. At the same time, the formal decision-making system (based on universal participation and representation of the membership), in which

This Executive Summary is derived from an IEO Background Paper that makes extensive use of highly classified material and cannot therefore be published given the conditions under which access to that material was provided. In particular, the author had access to all of the background material used to prepare earlier related IEO reports (IEO 2003, 2004). The author wishes to thank former and current IMF officials for their cooperation in providing interviews and access to documents, the IEO for its support and valuable input from its staff, and Borislava Mircheva and Roxana Pedraglio for valuable research assistance. In addition, Leonardo Martinez-Diaz, Thomas Bernes, Nils Bjorksten, Mariano Cortes, Iqbal Zaidi, and Borislava Mircheva provided valuable comments. Any errors are the author's.

Management formulates proposals and the Executive Board approves them and exercises oversight, is necessary to provide the IMF's legal authority.

This mixture of formal and informal governance imposes costs as well as offering benefits. Informal governance allows for flexibility and speed, but the combination of the informality of shareholder participation and the high level of secrecy that surrounds Fund decision making undermines ex post accountability. As a consequence, the IMF is unable to defend itself from external criticism by pointing to a clear historical record. The absence of effective ex post accountability also leads to three other important governance problems: (1) staff faces incentives that undermine the quality of the analysis that it presents to the Executive Board; (2) shareholders are able to exercise substantial influence over the content of conditionality that is not subject to scrutiny; and (3) Management does not resist shareholder pressures to relax the enforcement of conditionality in particular cases.

The six crisis cases reviewed for this paper¹ demonstrate some important common features of informal IMF governance as well as significant variations. Each of the G-7 countries played different roles in the various cases, reflecting the different interests at play in each. In addition, the way in which informal consultations took place evolved over time, in part in response to the crises themselves, and in part because of leadership changes. These variations highlight the fact that the Fund's informal governance takes different modalities in each crisis.

Although the substance of conditionality in programs in support of systemically-important countries tends to be delegated to the Fund, there are also variations across cases, and particular G-7 governments became more intensely involved in some countries than in others. In each of the cases reviewed, the U.S. had a dominant role within the G-7, in particular in setting structural conditionality in Indonesia and Korea, or in the case of supporting the preferred Brazilian exchange rate regime in 1998. In most cases, however, U.S. preferences did not differ significantly from those of other G-7 countries or from the strategy preferred by the Fund.

These case studies reveal governance problems in four important areas: surveillance, access to Fund resources, design of conditionality, and enforcement.

- *Surveillance.* Every member country is visited, according to a regular schedule, by an IMF staff surveillance mission, after which staff prepare a report to the Executive Board. A major focus of this exercise in emerging markets is to detect early warning signs of developing

¹Mexico (1995), Indonesia (1997), Korea (1997), Russia (1998), Brazil (1998), and Argentina (2001).

crises and recommend corrective action before a crisis becomes full blown and requires drastic policy corrections. The Executive Board's ability to identify and head off potential crises is undermined because, for systemically important crises, staff does not send clear signals about country performance. On one hand, the Board is not considered secure enough to receive confidential information. On the other, shareholders resist critical assessments of their countries, and staff is required to support the view of management in front of the Board, which constrains its ability to discuss many issues openly with the Board. Staff is also hesitant to confront member countries with critical analysis, especially when the country is in a vulnerable position that would make it react strongly. In all six cases, staff reports failed to issue early warnings that could be used to prepare for financial crises.

- *Access to Fund Resources.* Ordinary IMF lending is covered by rules that limit access to Fund resources to 300 percent of a country's quota, and a supplementary set of rules for extraordinary access. During urgent crises in systemically important countries, however, these regulations are waived, and are replaced by a very non-transparent process of informal bargaining.² In some cases, it is very difficult to reconstruct exactly how the degree of access was finally decided. The probability that the program succeeds in stemming a crisis is generally an increasing function of the resources committed, and the amount of adjustment required in the short run is a decreasing function. The country seeking assistance requests a figure that it believes politically feasible. Political approval for access to Fund resources is secured before a program comes before the Board, but this is nevertheless the most controversial stage of Board discussions, and the one most likely to lead to abstentions. In the end, the size of financing in crises is determined by informal consultations with the leading shareholders—usually involving a conference call among the G-7 deputies—with the United States playing a central role in each case.
- *Conditionality.* The Executive Board does not play a direct role in designing the conditionality in individual programs, but the fact that the Board does not formally amend conditionality does not mean that it exerts no influence. The Board exerts indirect influence over conditionality because possible objections are usually anticipated and because future programs can take account of the

²In response to this experience, in 2002 the Fund introduced the Extraordinary Access Framework to attempt to reconcile the formal rules with the informal practice.

issues that are raised. Management is careful not to bring a program to the Board before ensuring through informal contacts that the program enjoys a comfortable majority. In practice, this means that Management has to assure itself of the support of the G-7. Informal intervention by G-7 deputies and their Executive Directors in the design of conditionality reached a high point during the Asian crisis. Although formal procedures are in place to safeguard staff autonomy, shareholders are able to exercise substantial informal influence over the content of conditionality that is not subject to scrutiny, as in the cases of Indonesia and Korea.

- *Enforcement.* The Executive Board formally approves all disbursements of Fund resources, and when performance criteria are not met by the program's review date, the disbursement is withheld unless the Board decides to issue a waiver or modify the conditions. However, it is a frequent occurrence that major shareholders use their informal influence to urge Management to propose a waiver. Since the default outcome is that the program will be suspended when a performance criterion is not met, shareholders' informal influence has the effect of relaxing the enforcement of conditionality. This weakens the IMF's credibility as an arbiter of sound policies and dilutes market discipline.³ Weak enforcement of conditionality was pervasive in the cases of Russia and Argentina, and laid the groundwork for the crises that occurred in 1998 and 2001, respectively.

Findings and Conclusions

Informal practices have arisen to reconcile the need for decisive action and confidentiality with the existing formal institutional framework. As a practical constraint, during systemic crises management, decision making

³A quantitative study of 26 post-Communist countries demonstrate that countries that received substantial amounts of U.S. foreign aid were subject to much shorter program suspensions when their programs went off track. They received waivers or their conditions were modified so that they could quickly get back into good standing. As a result of the weak incentives that they faced, their economic policies were more inflationary, and they failed to implement conditions and went off track more frequently. Aid from other OECD countries had no effect (Stone, 2002). A study of 53 African countries reveals a similar pattern with respect to U.S. foreign aid, and also indicates that members of the CFA Franc zone are treated in the same way, particularly if they vote with France in the UN General Assembly, and that members of the Commonwealth receive similar treatment (Stone, 2004).

needs to adjust to give a dominant role to those who are able to promise substantial infusions of official financing and who have access to the private financial institutions most likely to help resolve crises. A key symptom of the cost to IMF credibility is the fact that IMF lending to countries with systemic importance fails to generate catalytic effects that mobilize private capital flows, but is instead often complemented by “concerted” lending by private institutions in creditor countries.

Although the Fund has assimilated numerous lessons from the experiences of the six crises reviewed for this paper (most of which have been articulated by outside observers—the emphasis on better data standards, more transparency, streamlined conditionality, an exceptional access framework, contingent credit lines, and proposals for new frameworks for dealing with sovereign debt), it has not come to grips with the fundamental governance problems that make the Executive Board an ineffective locus for surveillance. An important part of the problem is that the secrecy that surrounds IMF decision making makes it difficult to hold the institution or particular individuals inside or outside the Fund accountable for the roles they played leading to the crises as well as in crisis management. *Ex post* accountability is particularly important in crisis cases because ordinary procedures have to be accelerated and informal procedures come to the fore, and this is a blind spot of IMF governance.

In response to external criticism, the Fund has in recent years greatly increased the number of documents that it makes public, but information on the details of its decision making is not disclosed to the outside world or distributed within the organization, and this undermines its ability to learn from its own experience. Furthermore, formal mechanisms for *ex post* accountability are weak, and this is an area where informal mechanisms cannot help. Stronger *ex post* accountability would reinforce incentives for staff to provide candid analyses, and would improve the Fund’s ability to resist pressures to engage in risky lending or to modify programs in ways that serve the interests of only a subset of the membership. The experience of other organizations, such as central banks, indicates that publicity is the most effective protection for institutional autonomy. Therefore, the paper concludes with the following recommendation:

Formal changes in IMF procedures will have limited effectiveness in improving the management of systemic crises. Lasting improvements in institutional governance in general, and particularly in regards to crisis management require improvements in transparency. Documents that are no longer operational should be reclassified for public use and internal memos and correspondence should be transferred to the archives.

References

- Independent Evaluation Office (IEO), 2003, *The IMF and Recent Capital Account Crises: Indonesia, Korea, Brazil* (Washington: International Monetary Fund).
- , 2004, *The IMF and Argentina, 1991–2001* (Washington: International Monetary Fund).
- Stone, Randall W., 2002, *Lending Credibility: The International Monetary Fund and the Post-Communist Transition* (Princeton, New Jersey: Princeton University Press).
- , 2004, “The Political Economy of IMF Lending in Africa,” *American Political Science Review*, Vol. 98, pp. 577–91.

About the Authors

Thomas A. Bernes is Director of the Independent Evaluation Office. Before taking up this position in June 2005, he was Executive Secretary of the joint IMF–World Bank Development Committee and Deputy Corporate Secretary of the World Bank. From 1996 to September 2001, Mr. Bernes was the IMF Executive Director for Canada, Ireland, and the Caribbean. Prior to that, he was Assistant Deputy Minister of Finance and G-7 Finance Deputy in Canada and served as the senior international economic official representing Canada at high-level meetings. In addition to holding various senior finance, foreign affairs, and trade policy positions within the Canadian government, Mr. Bernes served as head of the OECD's General Trade Policy Division in the mid-1980s. He is a graduate of the University of Manitoba.

Ruben Lamdany is Assistant Director at the IMF's Independent Evaluation Office. Before joining the IEO in 2006, he was Director at the World Bank Institute, which delivers capacity-building programs in developing countries. Prior World Bank assignments include senior positions in the Operations Evaluation Department, as well as in the units responsible for operations in the Balkans, Russia, and Ukraine. He has held positions at the International Monetary Fund and in the Bank of Israel, and advised the Planning Institute of Jamaica on Trade and Industrial Policy. He has published on evaluation, human resources, financial-sector issues, and transition economies.

Leonardo Martinez-Diaz is Political Economy Fellow in the Global Economy and Development Program at the Brookings Institution. His research focuses on the political economy of finance and global economic governance. He has also served as consultant in the IMF's Independent Evaluation Office and for the High Level Commission on the Modernization of World Bank Group Governance. Martinez-Diaz is author of *Opening*

in Hard Times: The Politics of Banking-Sector Opening in the Emerging World (Cornell, 2009) and co-editor of *Networks of Influence? Developing Countries in a Networked Global Order* (Oxford, 2009).

Alisa Abrams is currently Research Assistant with the IMF's Independent Evaluation Office, where she contributed to the evaluation on IMF governance. Ms. Abrams focuses on governance and development at the community, national, regional, and multilateral level. As a consultant for the World Bank Independent Evaluation Group, she evaluated Bank assistance for decentralization and country public financial management and procurement systems. She has served in the World Bank Office of the Executive Director for the U.S. and for Japan, and in the World Bank Institute's Office of the Gender Coordinator. Ms. Abrams is a certified facilitator in Participatory Rural Appraisal.

Biagio Bossone is President of the Central Bank of San Marino and soon will head a strategy unit at Italy's Presidency of the Council of Ministers. He has been a member of the boards of the IMF, World Bank, and Asian Development Bank; a Banca d'Italia official; advisor to the World Bank and the IMF's Independent Evaluation Office; and international corporate consultant. He will advise the Zedillo High Level Commission on the Modernization of World Bank Group Governance. He is Adjunct Professor, University of Salento (Italy), and author of studies on money, banking, international finance, and development.

Katrina Campbell is General Counsel, Global Compliance Brightline Learning Division. She has extensive experience helping companies meet their compliance and ethics obligations. She has analyzed codes of conduct and ethical practices for many types of organizations, created and updated policies, and developed training curricula. In addition, she has developed custom training materials to ensure training programs reflect ethical and compliance obligations. As an attorney with a national law firm and as in-house counsel for large corporations, her work has included leading a corporate governance initiative; conducting, supervising, and providing counsel on numerous investigations; and counseling clients on employment law.

Jeff Chelsky began working on IMF issues while in the International Finance and Development Division of Canada's Department of Finance. He subsequently served for five years as Senior Advisor to the IMF Executive Director representing Canada, Ireland, and the Caribbean. He subsequently worked on IMF staff and as a Senior Economist in the IMF's Independent Evaluation Office where he contributed to a number of evaluations including on IMF governance. He currently works in the World

Bank International Policy and Partnership Group where, among other things, he helps manage the Bank's relationship with the IMF.

C. Scott Clark is currently President of C. S. Clark Consultants. Prior to that Mr. Clark held a number of senior positions in the Department of Finance, Government of Canada, including Deputy Minister of Finance. Mr. Clark also represented Canada on the Executive Boards of the IMF (1989–92) and the European Bank for Reconstruction and Development (EBRD) (2001–06). While at the EBRD, Mr. Clark served as a member and chair of the Audit Committee. Mr. Clark has served as an adviser to the IMF Independent Evaluation Office and the Executive Board of the Asian Development Bank

Dalberg Global Development Advisors is a strategy consulting firm specializing in international development and globalization. Dalberg's mission is to bring strategy and management expertise to the world's most pressing global challenges. Dalberg has conducted more than 400 engagements for over 100 global organizations, including companies, governments, and other organizations working in developing and emerging countries. The principal authors for the study, "Lessons Learned from Private Sector Governance Practices" conducted for the IMF, were: Rim Abida, Sonila Cook, Matt Daggett, and Andrew Stern. For questions or comments, please contact Andrew (Andrew.Stern@dalberg.com) or Sonila (Sonila.Cook@dalberg.com).

Alexander Mountford had extensive involvement in the IMF's decision-making processes and other aspects of IMF governance from 1963 to 2002. With a background in economics (M.A. from University of Edinburgh) and law (George Washington University), his career at the IMF focused first on operational work for the European and Asian departments, and later on work that was more directly related to Fund governance. As Assistant Secretary of the Fund, he worked closely with Fund Management, the Executive Board, and the Board of Governors. He has also consulted on governance issues for the African Development Bank and Caribbean Development Bank.

David Peretz was formerly Under Secretary for Monetary Policy at the U.K. Treasury. From 1990 to 1994 he served as U.K. Executive Director of the IMF and World Bank, and from 1994 to 1998 as U.K. Financial Sherpa for G-7/G-8 economic summits. He now works as senior adviser to the IMF's Independent Evaluation Office and independent consultant to the World Bank, the Commonwealth Secretariat, and other international organizations. He is author of "The IMF as the Principal Institution for

Promoting the Global Public Good of Financial Stability,” an assessment carried out for the International Task Force on Global Public Goods.

Alexander Shakow has had a long career in international affairs since receiving his London School of Economics Ph.D. in 1962. After 19 years in senior positions with the U.S. Peace Corps and U.S. Agency for International Development he joined the World Bank, where he was Director of Strategic Planning and of External Affairs. He was Executive Secretary of the Bank-Fund Development Committee for 7 years, and during 2001 was also Acting Bank Vice President and Corporate Secretary. Since retiring in 2002, he has been an independent consultant for international organizations and an active corporate and NGO board member.