September 15, 2008
Approval: 9/22/08

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 08/44-1

10:00 a.m., May 21, 2008

1. IEO Report on the Evaluation of Aspects of IMF Corporate Governance—Including the Role of the Executive Board

Documents: BUFF/08/58; BUFF/08/61; SM/08/127 and Correction 1, and Supplement 1

Staff: Bernes, IEO; Hagan, LEG

Length: 2 hours, 15 minutes

Executive Board Attendance

D. Strauss-Kahn, Chairman

Executive Directors	**Alternate Executive Directors**
	S. Itam (AE)
L. Rutayisire (AF)	K. Assimaidou (AF)
	P. Pereira (AG), Temporary
	W. Mañalac (AU)
W. Kiekens (BE)	
P. Nogueira Batista, Jr. (BR)	M. Agudelo (BR)
H. Ge (CC)	J. He (CC)
	R. Guzman (CE)
J. Fried (CO)	
	B. Claveranne (FF)
	S. von Stenglin (GR)
A. Kishore (IN)	
A. Sadun (IT)	M. Xafa (IT)
	D. Kihara (JA), Temporary
J. Mojarrad (MD)	
A.S. Shaalan (MI)	
A. Bakker (NE)	
J. Henriksson (NO)	J. Bergo (NO)
A. Mozhin (RU)	
	A. Al Nassar (SA)
	C. Sucharitakul (ST)
	N. Raman (ST), Temporary
T. Moser (SZ)	A. Raczko (SZ)
M. Lundsager (UA)	D. Heath (UA)
	J. Larsen (UK)

S. Anjaria, Secretary
W. Rahman-Garrett/T. Orav, Assistants

Also Present
J. Dubinsky. African Department: P. Drummond. Asia and Pacific Department: S. Hiki. European Department: L. Giorgianni. External Relations Department: M. Ahmed, G. Bauche, G. Bhatt, G. Hacche, C. Lotze. Fiscal Affairs Department: C. Cottarelli, T. Ter-Minassian. Finance Department: D. Andrews, M. Kuhn, A. Tweedie. Independent Evaluation Office: A. Abrams, T. Bernes, M. Camilleri, J. Hicklin, R. Lamdany, L. Martinez-Diaz, R. Pedraglio. Legal Department: D. Eastman, H. Elizalde, S. Hagan, T. Laryea, J. Powers, M. Sengupta, R. Weeks-Brown. Middle East and Central Asian Department: A. Bennett. Office of Budget and Planning: A. Bonzi, H. Young. Office of Internal Audit and Inspection: D. Nelson. Policy Development and Review Department: U. Erickson von Allmen, I. Mateos y Lago, U. Ramakrishnan, J. Zalduendo. Secretary's Department: P. Gotur, M. Yslas. Statistics Department: W. Alexander. Western Hemisphere Department:

G. Meredith. Advisors to Executive Directors: D. Mevis (BE), C. Mira (CE). Senior Advisors to Executive Directors: G. Aboobaker (AE), R. Bannerji (IN), M. Choueiri (MI), G. Cipollone (IT), O. Demirkol (BE), A. Guerra (CE), F. Haupt (GR), M. Kaplan (UA), S. Mathema (ST), H. Mori (BR), D. Nintunze (AE), R. N'Sonde (AF), E. Nyambal (AF), L. Palei (RU), J. Perrault (CO), S. Polak (BE), C. Roos Isaksson (NO), S. Rouai (MD), W. Schilperoort (NE), D. Sembene (AF), A. Umaña (CE), P. Weber (FF), R. Weber (SZ). Advisors to Executive Directors: N. Alotaibi (SA), Y. Alvarez (CO), H. Caracalla (MI), J. Cardoso (IT), V. De la Barra (AG), S. Duggan (AU), K. Farrant (UK), A. Jbili (MD), L. Jimenez (CE), S. Krishnan (IN), M. Lanz (SZ), H. Li (CC), R. Lin (CC), H. Malothra (BE), G. Mpatswe (AF), S. Na (AU), M. Nozaki (JA), F. Parodi (UA), S. Rottier (BE), J. Sulemane (AE), J. Thornton (UK), E. Valle (CE).

1. IEO REPORT ON THE EVALUATION OF ASPECTS OF IMF CORPORATE GOVERNANCE—INCLUDING THE ROLE OF THE EXECUTIVE BOARD

The Chairman asked for a moment of silence to mourn the loss of life due to an earthquake in China.

Mr. Ge made the following statement:

> As you know, a devastating earthquake struck China's southwest Sichuan Province on May 12. According to the State Council of China, as of noon today, Beijing time, the death toll has reached 41,353, and 247,683 people have been injured. Many are homeless, and 32,666 are missing. A rough estimate of property losses is $22 billion. My authorities and the military rescuers are concentrating on relief operations in line with Premier Wen Jiabao recent statement: "Saving lives is our top priority, as long as hope of survival still exists. We must use all our forces, and save lives at whatever cost."
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> After the earthquake, the MD issued a statement expressing his sympathy, and many colleagues have asked me to extend their sympathy and condolences to my authorities. I take this opportunity to thank them all.
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> Fund volunteers have initiated a humanitarian drive to send relief to the victims. Tables will be set up to collect donations in the HQ1 lobby and outside the HQ2 cafeteria. The drive will run from today through next Tuesday, May 28, from noon to 2 p.m.

Mr. Torres and Mr. Pereyra submitted the following statement:

> In its report, the IEO uses a stimulating mix of best-practice knowledge and out-of-the-box thinking to identify several key weaknesses that hinder Fund governance, and to make concrete proposals to enhance effectiveness, efficiency, transparency, and representation. This courageous and frank advice is exactly what we expect from the IEO—particularly at this juncture, when the Fund needs to respond with credible reform to strong questioning from several quarters. We are not surprised at all. This report just confirms that the IEO deserves our strong support.

This does not necessarily imply that we can support all the ideas proposed in the report. However, we need to recognize that we have before us a document that cannot, and must not, leave us indifferent. We should not only congratulate the IEO for its contribution, but also ourselves for showing the institutional robustness to hire an advisory body to criticize us freely and candidly. We recognize that the issues brought up by the IEO are complex and will require careful processing beyond today's meeting; and that many of them are of the competence of Governors. In this vein, we would like to provide the following preliminary comments on specific points.

The Fund should preserve its ability to act swiftly in extreme situations like systemic crises, but the "informal governance mechanisms" mentioned in paragraph 14 are pernicious. The IEO offers a very good de facto characterization which, regretfully, reflects the truth in this field very accurately. These alternative mechanisms leave most of the membership out of the strategy formulation, decision making, and implementation processes; use the Board only to give its final blessing to the resulting program; and therefore make for a very low degree of ownership and accountability. This is in part our own fault. The Board's paralysis in deciding how to deal with very sensitive information that deserves extra-confidentiality makes a good illustration of why "informal or de facto" solutions turn to be unavoidable. Since we cannot agree on how to deal with situations in which extremely sensitive information should be handled watertight from markets, we just pretend that the current rules are fine and that information shared amongst a 24-seat Board that reports back to 185 Governors will not leak into the market.

We fully agree with the IEO on the need to address key weaknesses in voice and representation (paragraph 26). Clearly, the demands from representing a considerable constituency may have an important impact on the quality of work. On top of that, the number of OED staff is now being reduced, which inequitably affects the workload and the capacity of multi-country chairs to keep up with the business of the Fund. The situation is compounded by the fact that multi-country chairs that represent developing country constituencies do not have the ability to fall back on well-informed offices in their capitals. Converting the eight single-country constituencies into multi-country ones will not solve this problem but could help to enhance representation and rebalance responsibilities. We are open to considering this idea.

Over the years, the IMFC has gained de facto political weight within the Fund's governance framework and it has one big advantage: it makes decisions by consensus. While keeping in mind its advisory nature, there is little doubt that the endorsement and advice provided by IMFC Governors has come to be accepted as a key guiding element in the Board's work. In this context, we must then explore ways to enhance the IMFC's role in promoting wide consensus and strong ownership.

If our Governors come "un-prepared" it is because the IMFC Deputies Meeting does not serve its objective. In order to prevent the "un-preparedness" of many participating Governors, as correctly pointed out by the IEO, the IMFC should be preceded by a preparatory stage. Obvious as this appears to be, this is not happening. as the IMFC Deputies Meeting is anything but a preparatory meeting. In our experience, it is difficult to recall any time when we have actually done concrete preparatory work at the Deputies' Meeting that can be useful to our Governors. There have been calls for discontinuing it, but it would be better to make it fulfill its objective. A sharper focus on the proposed items for discussion and a chairmanship dedicated to promoting agreement—and, admittedly, a stronger link with meetings of emerging and developing country groupings, such as the G-24—would effectively contribute to more active participation at the IMFC and offset the discouraging perception of G-7 "preponderance."

Is the Board "too large"? It is true that the size of the Executive Board has increased considerably since its inception—perhaps above the standard for expeditious decision-making in modern corporate governance. However, since the membership has quadrupled (footnote 18), and therefore representational demands have mounted considerably over the years, it is not totally clear to us that the Executive Board has become "too large." There may be too many European chairs and too few emerging market and developing country chairs, but this is a different matter that, admittedly, is beyond the IEO reports terms of reference, so we do not blame them for not bringing this crucial issue to our consideration. Perhaps the Managing Director (MD) could ask its newly constituted group of advisors to pick up on this issue.

We should not get bogged down in the debate on whether the Board's role is "supervisory" or "executive." In light of our experience with the actual work at the Board, the difference appears to us more rhetorical than effective. We fully concur that we should steer clear from micromanagement. However, while in principle we find it attractive to reduce the burden of day-to-day "executive" work and enhance our "supervisory" role, figuring out where to draw the line becomes tricky when we get down to concrete examples. Both components are strong in most issues we can think of. Therefore, we are not convinced that the Board could easily reduce its meetings to one week per month. Further elaboration on this subject would be helpful.

That said, we see merit in the IEO's discussion on the prioritization of Board time and the creation of Board value added (paragraph 44). A main objective of this exercise is to explore possible reforms that can have a substantial impact in strengthening the Fund's ability to fulfill its mandate to secure global financial stability. Particularly, under the present international circumstances, the Board should engage much more in certain fields, especially multilateral surveillance, and in setting objectives (as a budgetary target), but leaving implementation to Management. In consequence, we agree that the Board could have a greater say in the allocation of its time, maybe even by revisiting the role of the Secretary's Department in the process. We recognize that designing the specific mechanisms to make this greater flexibility happen would probably not be straightforward, but we would nevertheless support work in this field.

Ensuring appropriate oversight of policy implementation should be a permanent concern of the Board. Currently, the Board reviews lending and surveillance operations; conducts periodic reviews of policy implementation; and has, for example, called for frequent assessments in the recent meeting on the guidelines for streamlining conditionality. We would like to ask the IEO to elaborate more on what additional tools the Board could use to better fulfill its role in overseeing implementation.

On a related matter, we concur that the Legal Counsel should be distanced from the organizational structure under Management to enhance his/her ability to provide independent advice to the Board.

We also concur with the need to discharge more work on the Committees, and strongly support the proposal that Committees should forward their conclusions for Lapse of Time (LOT) approval. This would speed up the work of the Board and make the decision-making process more efficient without needing to reduce the number of chairs (i.e., without affecting the Board's representation).

Has the proliferation of Grays made Board meetings "less lively"? While recognizing that there is a downside to Grays, we certainly prefer them to other time-consuming (and even less lively) options. Especially, we know of few things that are more boring than attending meetings where participants read their statements. Therefore, we do not think that we can realistically avoid the use of Grays. To be sure, they should be terse, provide value added, express approval or disapproval concisely, and avoid repeating the content of staff reports. Importantly, while protracted argumentation and exchange of ideas will probably be unavoidable sometimes, maybe the Chair could play a more proactive role in expediting and focusing discussions, in addition to the basic function of controlling the order of interventions.

Summings Up are cryptic and understandable by the "initiated." We agree with the IEO that the code words currently in use are not transparent, and should be clarified and made public. A related issue is that the normal practice in the drafting of Summings Up is the presumption that silence implies agreement with the staff—an additional reason for chairs to participate actively in discussions.

We see much value in the IEO's suggestions for improving the handling of misconduct and conflicts of interest (paragraph 63). The buff circulated by LEG (May 12) is correct in pointing out that the MD's requirements in this area should be in his/her contract, since he/she is not a member of the staff, and therefore the staff's rules would not apply to him/her. However, the IEO highlights several legal vacuums, like the lack of clarity on who would be responsible for enforcing such regulations on the MD. Other missing elements include a "whistleblower" protection and a mechanism of complaints on Executive Directors, the MD, and other senior officers that ensures confidentiality of the source. Notably, given their access to privileged information, high-level officials in governments, central banks, and financial corporations are normally subject to restrictions on employment after leaving such posts. By the same token, similar rules could be considered in the case of Management and senior staff—and, for that matter, Board members—to be consistent with recent efforts at the Fund to avoid perceptions of conflict of interest and increase member countries' willingness to trust Management and the Board with sensitive market information.

We cannot support the proposal to establish an IMFC/Council (paragraphs 66-67):

- In the IEO's view, the IMFC/Council would have the political authority to exercise oversight over the Fund, which the current IMFC lacks. However, the expectation that IMFC/Council members will "formally share" the responsibility for their decisions is a rather optimistic assumption with a legalistic flavor. From experience, Ministers recognize only responsibilities signed by them individually, and it is not clear to us whether they would accord a similarly binding force to pledges assumed collectively. Therefore, we have reservations as to whether the proposed IMFC/Council would actually make a significant difference in reinforcing Fund governance.

- Despite its shortcomings, consensus decisions have come to be the accepted practice at the IMFC. We are unconvinced that this would be the case at the proposed IMFC/Council. In our view, the IEO's remarks that the IMFC/Council should "strive for consensus" and that "voting should take place only in extraordinary circumstances" may be more wishful than real. The provisions for voting in the Council would allow for votes to be split amongst countries, and therefore it is predictable that voting power will ultimately be used to settle issues where consensus creation proves to be too difficult.

The 2001 Draft Bank-Fund Joint Report provides clear principles for establishing a definitive framework for the election of the MD. Actually, the last elections have reflected a considerable move toward greater openness, with diverse candidates participating in the process. The real issue is how to ensure that the power to elect candidates be balanced across the membership. The way to do this is either through adequate regional rotation, or by using a qualified majority to select the MD. Additionally, we are glad that work is under way to introduce an accountability framework for Management. Delegating the evaluation of Management to a Board Committee seems appropriate, as well as keeping the necessary confidentiality.

International best practice supports a shorter time to make Board documents public. In fact, we do not see why the length of time for disclosure should be two years—as suggested by the IEO—and not one.

Finally, we think that opinions regarding the Development Committee (paragraph 68) fall outside our mandate.

Mr. Gibbs and Mr. Thornton submitted the following statement:

We welcome this evaluation, which raises some fundamental questions about the nature of the IMF's governance framework. Many of these questions will require further consideration in capitals, since they go beyond the scope of the Board to decide. We believe there is potential to strengthen the Fund's governance and to make the main elements of it—Management, Governors, the Board—more effective. This would go a long way to restoring legitimacy. Our guiding principle is that Shareholders—whether at the level of Governors or their Board representatives—should focus on what they want Management to deliver and then hold Management clearly to account for delivery.

The IEO report clearly identifies many of the issues which prevent the institution being as effective as it could be. For example, there is a lack of clarity about the respective roles of the Board, Management and Governors that can lead to a combination of micro-management in some areas and a lack of accountability in others. There is also a lack of mechanisms to allow shareholders to provide strong strategic direction.

The areas of overlap and duplication could be resolved by a clearer delineation of responsibilities, particularly on the roles of Management and the Executive Board. Ensuring accountability is a somewhat more difficult task, which will, inter alia, require reforms to the political conventions which have restricted the selection of the most senior staff in this and other institutions.

Enhancing Accountability

The key accountability deficit, however, applies to the institution as a whole. As the report notes, at present we lack a strong mechanism for setting the Fund's strategic objectives, and for monitoring progress against them. For example, the IMFC, designed to provide political input, lacks the formal authority to set the agenda and evaluate implementation. The activation of the Council, provided for in the Articles, could provide a mechanism for increasing political guidance for the Fund's work, strengthening political commitment to this work, and so enhancing the multilateral policy dialogue.

While a Council might be the most comprehensive and overarching method of strengthening political input, we should also consider other, more immediate measures. In particular, the Statement of Surveillance Priorities could also provide a means for the Board to set strategic directions and provide accountability in relation to surveillance. To increase political engagement, the statement should be finalized following input from the IMFC. It will also need to be accompanied by a suitable evaluation framework in order to ensure accountability.

The Role of the Board

The report provides some valuable recommendations for modernizing and streamlining the role of the Board. There is dissatisfaction amongst Executive Directors themselves with how the Board's time is allocated. Providing management with more delegated authority over decision making might allow the Board to shift its focus to those areas where it can add the most value. This will involve shifting away from day-to-day operational activities toward a more supervisory role for the Board.

For example, we note the widespread view of staff that the Board contribution to the large majority of Article IV consultations adds relatively little of value, while taking up a very substantial proportion of Board time. We therefore might want to reflect on whether it would be possible to consider more of these documents either through a sub-committee or on a lapse-of-time basis. The Board's role on Article IV consultations might be better focused on ensuring that management and staff have implemented the surveillance framework correctly, and adhered appropriately to the Statement of Priorities.

Similarly, we should consider greater delegation to management on personnel issues. It is not always obvious that the discussions on the appropriate qualifications for senior staff positions have much impact in determining the outcome, or indeed add much value to the process. Of course, improved accountability of management to the Board is the obvious corollary to increased delegation: the Board should be holding management to account for what it delivers rather than instructing it how to deliver. This overall approach is more consistent with a smaller Office of Executive Directors, a direction we have already begun to take, so that more effective governance is also less costly.

We should look at ways of strengthening the Board's committee structure, such as putting in place clear and transparent guidelines for selecting committee members. The suggestion for an evaluation of committee (and Chair) performance might also add a further element of accountability to this process.

At the same time, enhancing the representational role of the Board is essential to maintain the legitimacy of an institution which is often criticized by civil society as being harsh and unaccountable. The representation of the Fund's membership at the Board is one of its key strengths. Nevertheless, there are measures that should be taken to improve this representational role, such as by increasing the accountability of Executive Directors to their Governors. We think the proposals to increase terms of service would undermine rather than support good governance in the institution. The expertise individuals bring to the Board including their experience of working with international financial institutions renders minimum terms of service unnecessary. Institutional memory can be preserved by the Office of Executive Directors (OED) and/or the authorities and should not rest in individuals. If there is a case for restricting terms, it should arguably be thought of as an upper rather than a lower limit. For example, a limit of say 2 or 3 two-year terms could be a better way both to continually refresh the perspectives of the Board and to ensure that individual Directors remain in close touch with the views of their various Governors. This would also imply the need to agree a new selection process for the Dean of the Board.

The Role of Management

We agree with the IEO findings that the selection process for appointing the Managing Director (MD) and members of the management team should be based on qualifications and experience, and that the convention whereby the MD is traditionally a European be abandoned in theory and in practice. The World Bank should follow suit. Similarly, while respecting all aspects of diversity, the MD should have full discretion when appointing his/her senior staff. Again, the Board should hold the MD accountable for his/her performance and the performance of his/her staff, not constrain or direct those appointments.

Going forward, we will clearly need to consider further the ideas raised in this report, and also be open to new suggestions and solutions. The final package of measures will need to work as an comprehensive system of accountability and governance. We do not underestimate the difficulties in reaching agreement on some of these contentious issues, and we therefore look forward to further discussions in this and other fora.

Mr. Shaalan submitted the following statement:

We thank the IEO team for an interesting report on a crucial subject, which attempts to address basic issues relating to Fund governance. The areas covered in the report are major elements in governance and are relevant and important. These are: (a) whether Fund governance practices are capable of delivering high quality and timely results; (b) whether the operations of the various governing bodies of the IMF are run in an efficient manner; (c) whether there are agreed standards against which IMF actions can be assessed, and adequate mechanisms for the membership to be able to judge performance and set rewards or sanctions; and (d) the degree to which IMF members have their views considered in the decision-making process. The report contains some useful recommendations, which could after further study contribute to advancing the discussion on the reform of Fund governance. However, there are other recommendations we have reservations about.

We take note of the Managing Director's statement, in which he indicates that he plans to "announce some initiatives to take the governance reform forward in the coming months." We trust that this will be done on the basis of a broad-based consultation process that goes beyond merely information. In what follows, we will address first the broad conclusions and recommendations of the report, and then turn to the more specific issues relating to the IMFC, Management, and the Board.

It is clear that that there is a need to clarify the roles and responsibilities of each of the governance bodies of the IMF. It is well known that the IMFC is only an advisory and not a decision-making entity, yet its communiqués have been used to shape the Fund's work program. There is also an overlap and a lack of clarity on the respective roles of the Board and Management. We are not entirely convinced, however. as the report seems to contend, that a shift in the balance of Board activities toward more supervisory and representational roles would necessarily lead to greater clarity on the respective roles of Management and the Board. The aim of the process of clarification should be to ensure that Management and the Board work in harmony, rather than at cross purposes, toward reaching common objectives. We believe Management should initiate and open a frank dialogue with the Board on this issue, aimed at operationalizing a clear understanding of the respective roles of both bodies.

We have reservations regarding the view that the Fund needs more active and systematic ministerial-level involvement in setting broad strategic goals and in overseeing performance. We do not see how such an involvement would lead to more efficient or effective governance. Executive Directors, who are involved in the day-to-day work of the IMF and aware of the challenges facing the organization, are more able to ascertain the need for strategic change, and the direction of the change. Furthermore, if setting the broad strategic goals is to be undertaken by a Ministerial body, there is a risk that the discussions could be overshadowed by political considerations that would have the upper hand in the decision-making process. Decisions should be rooted in technical, rather than, political grounds. In any case, it should be well known that the membership, in the form of the Board of Governors, have delegated most of their power to the Executive Board.

We are not convinced by the argument that the Board's effectiveness is hindered by its excessive focusing on executive rather than supervisory functions, and any move in that direction must be defined and spelled out clearly before any measures are taken in this regard. With regard to Board involvement in Article IV consultations, the report suggests that consideration be given to allowing Management responsibility for certain non-systemic country consultations. However, we believe that this would considerably weaken the process of bilateral surveillance, which is at the heart of Fund work, and also undermine the principle of uniform treatment of member countries. Even if a country is non-systemic, it would still deserve a full consideration by the Board of its policies. The fact that Executive Directors do not frequently attend Board meetings related to small countries does not in any way diminish the importance of these countries, as issued grays express the views of Executive Directors. There is no way Executive Directors can attend every Article IV consultation discussion. There are other staffs, including Alternate Executive Directors, in each Director's office who can and do attend.

The IEO report points to the absence of a formal framework by which Management can be held accountable for its performance, and that this represents an important gap in good governance. Indeed, this is a matter that had been long neglected by the Fund. However, more recently, as noted in the statement of the Legal Department, the Board approved a "performance feedback mechanism" in October 2007, which is designed to enable the Board to assess the performance of the Managing Director. The mechanism also provides for the Managing Director to make his assessment of the performance of the Board.

As can be gathered from our comments above, we do not see the need for the establishment of a ministerial-level governing body with a formal decision-making role, within the IMF structure. Such a body (new IMFC/Council) would constitute an added layer of bureaucracy that would simply serve to confuse the decision-making process and add to inefficiencies. Moreover, we believe that efforts should be made to return the IMFC to its original advisory role. The importance of the IMFC does not hinge on its having a decision-making role, rather from the fact that it is the only forum in which the voices of the whole spectrum of membership can be heard.

We are in favor of the proposition to clarify the mandates and responsibilities of the Development Committee (DC). We agree with the report's conclusion that the DC's jurisdiction should be restricted to the work of the World Bank. This is in line with our continued call for a clearer demarcation between the roles and responsibilities of the Fund and the Bank. As indicated in the report, the Managing Director of the Fund and the Chair of the IMFC can still participate in the DC's meetings as observers, and intervene as appropriate. This would exactly reciprocate the current practice whereby the President of the World Bank and the Chair of the DC attend the meetings of the IMFC as observers.

With regard to the Executive Board, we concur with the proposition that the Board should give greater emphasis and develop more effective processes to provide oversight over the implementation of agreed policies and strategies. At the present time, the work program is set by the Managing Director, and is presented to the Board for discussion and approval. The IEO report recognizes that the Board would need to play a more active role in setting its own agenda, if it were to achieve the above objectives. According to the report, "this would require a more active and systematic role for committee chairs and some form of reporting lines from the Board Secretary to the Board." Perhaps the IEO team can elaborate further on this point.

We are not convinced that delegating some of the Board's day-to-day operational activities to committees would result in much added efficiencies. As the statement of the Legal Department indicates, committees perform only an advisory function, and the Board would have to come back to the issues before a decision is taken. Furthermore, committee meetings are attended invariably by all Executive Director (ED) offices, so that not much in time savings can be achieved. Regarding the reform of the Board committees, we do not agree with the characterization by the IEO report that "several of them are insufficiently independent of Management." Furthermore, the fact that there are Board committees with responsibility for financial management oversight, administrative policies, and human resource policies at other international organizations, is not sufficient reason to have them at the Fund. More justification is needed for the creation of additional committees.

We support the proposal that the term of Executive Directors should be extended from the present two years, to at least three years. As pointed out in the report, this would enhance institutional knowledge, continuity, and Board effectiveness. We are not convinced, however, that much can be achieved from having job descriptions for Executive Directors, Alternates, or Senior Advisors, or that the Annual Performance Review process be extended to the professional staff in ED offices. On the contrary, such procedures carry the implication that member countries do not understand the qualifications needed for their representatives in the Fund, or that countries are sending representatives who are not qualified, and would, in our view, represent undue interference in the work of Directors' offices.

We are not in favor of the proposition that the Board meets on a less frequent basis than is currently the case. The suggestion that the Board meets, for example, only one week per month, is based on the premise that the Board would in fact delegate much of its day-to-day activities to committees or Management, a notion with which we disagree, as pointed above. Furthermore, the idea that less frequent meetings might enable the appointment of some non-resident Executive Directors who are more senior, misses the important point that daily contacts and exchanges between Executive Directors—as well as between Executive Directors and senior staff—on a variety of issues, provide a fundamental basis for successful decision-making by the Board.

While we acknowledge the points and clarifications made by the Secretary's Department regarding the issue of Summing Ups, we are not surprised by the IEO findings that a large majority of Board members as well as of senior staff still have either questions or concerns about one aspect of the Summing Ups or the other. The extension of the electronic response period to preliminary Summing Ups from 2 to 8 hours has somewhat enhanced Board ownership, but we believe that the period is still too short, given the continued proliferation of committee meetings and various briefings on off-Board days.

On Management, we agree with the IEO conclusion that the selection process for the Managing Director should be reformed, it should be noted that the main principles that should underlie the reformed process are already set out in the 2001 Draft Joint Report of the Bank and the Fund Working Groups to Review the Process for Selection of the President and Managing Director. The real issue, however, is not addressed by the report on the subject, which is whether the main shareholders are ready to implement these principles effectively. So far, the experience has been disappointing.

We also agree with the conclusions of the IEO report regarding the DMD selection process. While we see the concerns raised in the IEO report regarding the process (or lack of it) of assignment of responsibilities among the three Deputy Managing Directors (DMDs), we are not clear as to how an optimal assignment pattern would look like. One issue that does not appear to be addressed in the report is whether the present structure of Management (an MD and three DMDs of which one is senior) is the best suited for the Fund, or whether a different Management structure along different lines of responsibilities could serve the institution in a better way. Any comments from the IEO team on this issue would be welcome.

Regarding handling issues of misconduct and conflict of interest, the IEO report acknowledges that the current Managing Director is subject to the staff Code of Conduct under the terms of his letter of appointment, but also notes that this is not specified in the staff code, and that it is not clear who would be in a position to apply this code to the MD. We have read the response and clarifications made by the Legal Department on these issues, and are satisfied that there are now sufficient safeguards to deal with issues of misconduct and conflict of interest by the MD.

Mr. Mojarrad and Mr. Rouai submitted the following statement:

We thank the IEO for a rich and comprehensive evaluation of IMF corporate governance. This work, which capitalizes on numerous studies detailed in the background documentation, should be viewed as part of a continuous process to adapt the Fund over time to the new international financial environment. Following progress made in a difficult, yet unfinished agenda of quota and voice reform, today's Board discussion is the beginning of another chapter of reform of Fund governance to enhance its legitimacy and relevance to the membership and we expect both the Board and Management to closely cooperate in setting the work program with the objective of reaching a consensus on the needed reforms and a timetable for their implementation.

At the outset, it is important to recognize that governance is a blurred concept and we therefore support the focus in the evaluation on institutional structures as well as on the formal and informal relationships between the Executive Board, Management, and the IMFC.

Reform of the Fund governance involves delicate balances and competing interests within the Fund and among countries, regions, and groups. The difficulty associated with the process of reform of Fund governance is also reflected in the fact that the main proposals made by the IEO, particularly with regard to accountability and the creation of the Council, are neither new nor innovative as they have been debated at length since the Second Amendment of the Articles of Agreement. While we are comforted by the conclusion that "gradual reforms in its governance allowed the Fund to remain relevant in a changing world economy," the key recommendations of the IEO report need to be put into perspective.

The approach followed by the IEO to analyze Fund governance is sensible. The four dimensions, i.e., effectiveness, efficiency, accountability, and voice, give a fairly good representation of the main principles that should guide the evaluation of a quasi universal, yet cooperative, monetary institution like the Fund. We are not surprised by the conclusions which confirm that effectiveness of Fund governance and its efficiency are clear elements of strength, whereas accountability and voice are relatively much weaker. Since voice and efficiency have been extensively discussed by the Board in the context of the reform of quota and voice or are being addressed through refocusing of activities and streamlining of expenditures, including agreement for the first time on an Office of Executive Directors (OED) budget, we will focus our remarks on the need to improve accountability and to better delineate responsibilities between the Fund's main bodies of governance.

The IEO identifies accountability as the weakest aspect of Fund governance. While we agree that a clear accountability framework is lacking in the Fund, there are no adequate standards against which to assess an accountability framework for the Fund. In addition, the Global Accountability Framework developed by The One World Trust and referred to by the IEO evaluation offers only a snapshot of Fund accountability and that only in its 2006 report, based on data collected in mid 2006, and does not take into account recent and ongoing reforms. From our own perspective, we would like to stress the evolving character of reforms in this area and can point to a number of initiatives that have already been implemented or initiated. These include, inter alia, and in addition to the ongoing reform of quota and voice:

- The creation of the IEO itself to, among other things, support the Executive Board's institutional oversight responsibilities;

- The consideration of an open and transparent framework for the selection of the Managing Director (MD) and the chair of the IMFC. Some progress has been made in the context of recent MD appointments, even though this framework has yet to be formally endorsed by the Board;

- The recent setting-up of the framework of the MD's performance evaluation;

- The recent review of the structure and mandates of Executive Board Committees and the role of the Dean;

- The evolving modernization and streamlining of the annual report of the Executive Board to the Board of Governors with the planned inclusion of a Chapter on accountability to cover work of the IEO and other relevant initiatives in risk management and audit;

- Other governance-related measures include publication of the Board work program and agenda and the adoption of a Code of Ethics and a financial disclosure policy for the Executive Board.

Although the IEO main report and background studies make a large number of worthwhile recommendations, we will limit our comments to the three major ones:

- The transformation of the IMFC into the Council and the refocusing of the Development Committee (Recommendations 1 and 2);

- The conversion of the Executive Board into a supervisory and oversight body (Recommendation 3); and

- The development of an accountability framework for Management (Recommendation 4).

The IMFC and the Development Committee

The transformation of the IMFC into the Council was extensively discussed at the occasion of the conversion of the Interim Committee into the current IMFC. Our views on this issue have not changed and we continue to oppose such a transformation. In addition, we question the relevance of the Council, as envisaged under the Second Amendment of the Articles of Agreement, to the current financial architecture. A careful reading of Section 2(a) of Schedule D, which refers to roles like "supervise the management and adaptation of the international monetary system" or "review developments in the transfer of real resources to developing countries," shows that the environment and concerns prevailing at the time of the creation of the Interim Committee are no longer relevant. One has only to consider the current status and limited role of the SDR in the international financial system and the debate about Sovereign Wealth Funds to realize how far we are from this original mandate.

The arguments in favor of the activation of the Council continue to lack substance and we are not convinced that transforming an advisory body of Ministers into one with legal responsibility would make any significant difference to ground realities. Executive Directors in the eight single-country constituencies (47.9 percent of total voting power) are directly answerable to their authorities who sit on the IMFC; similarly, at least seven of the multi-country constituencies (25.2 percent of total voting power) are headed by Directors whose country's voting power constitutes, by far, the largest component of the total voting power in their respective constituencies (i.e., Belgium, Brazil, Canada, India, Italy, Switzerland, and the Netherlands) and could not act independently of the interests of their authorities. Only in the remaining nine constituencies (26.9 percent of total voting power) do Directors have some room for taking decisions independently from their capitals, even though prior consultations take place for strategic decisions. Even with its official advisory role to the Board of Governors, the IMFC is playing an important role in shaping the Board agenda and providing political legitimacy to IMF work. The current fragile balance between the role of Executive Directors as representatives of their authorities and as officials of the Fund may not be easy to replicate at the level of the Council, where differences in political power will be more obvious and knowledge of the working of the Fund will be uneven.

The IEO argues that the Council would address some of the weaknesses of the IMFC if given an explicit mandate to exercise oversight over the IMF on behalf of the Board of Governors. It is clear that any effort to strengthen the IMFC would imply a redistribution of power away from the Executive Board, as provided by Section 5 of Schedule D on the Council. What is not clear is a demonstration by the IEO that the Executive Board is not effective in exercising the authority conferred to it by the Board of Governors. In addition, we did not see any assessment of the likely impact of the Council on the work and responsibilities of the Executive Board. At the origin, the Council was seen as a political counterpart to a strong Executive

Board; curtailing the Board's executive powers while at the same time reducing its legitimacy by creating the Council would strike a fatal blow to the status of the Board and would weaken the delicate balance between the Fund's governance bodies. The activation of the Council would also weaken incentives for compromise and consensus building by Executive Directors, who would defer all controversial issues to the Council, thereby hurting the interest of developing countries at a time when the Fund is committed to enhance voice and representation. Interestingly, the arguments developed in Box 2 against a non-resident Board that members would "usually be less able to contribute to strategic discussions and oversight activities because they are less knowledgeable" could also apply to the Council.

On the Development Committee, we agree with the IEO on the need to clarify its mandate and responsibilities and we have an open mind regarding the limitation of its work to issues of relevance to the World Bank only.

The Executive Board

The IEO recommends shifting the balance of Board activities away from executive powers toward a more supervisory role. However, it does not define the executive powers that need to be restrained. One finds an indirect definition in paragraph 72, which states that "The Board should reconsider the modalities for its involvement in the Articles IV surveillance process" and "consideration should be given to allowing Management responsibility over certain types of non-systemic country issues, such as approval of program reviews and certain Article IV consultations." In fact, real executive power on all matters connected with use of Fund resources continues to lie with Management, which has the final say on bringing a program or its review to the Executive Board, a decision which the Board has never overturned. The IEO appears to suggest that supervision and oversight are best confined to policy issues—rather than country items—and yet policy is made and re-made, not in abstract, but in dealing with concrete trade-offs and dilemmas that arise from country cases. Moreover, surveillance is a cooperative process based on peer pressure and evenhandedness that only the involvement of the full Board can ensure. Delegating surveillance activities to Management or even to a Committee risks undermining its very reason.

On the size of the Board, we agree with the IEO that it is a delicate balance between effectiveness and representation and we would like to point out that 60 percent of the authorities surveyed share this view. We support, however, the views expressed by Mr. Torres and Mr. Pereira, in particular, that “there may be too many European chairs and too few emerging and developing countries chairs.”

The IEO recommends that the Board meets less frequently, perhaps for one week a month. This proposal is in fact linked to the first, since it assumes that many of the executive functions of the Board would be transferred to Management, which we strongly oppose. Such a proposal, if accepted, would be in effect a transition phase toward a non-resident Board, which the IEO itself rejects, and would weaken the Fund effectiveness to respond quickly in times of crisis and to serve the membership when Fund advice is most urgently needed.

The evaluation points to a gap in the oversight by the Board of policy implementation. The creation of the IEO and the recent agreement on follow-up of implementation plans will help in this area although we recognize that more needs to be done to enhance audit, evaluation, and risk management in the Fund and the interaction of the Board with these functions.

As for the accountability of the Board, it is interesting to note that the surveys conducted by the IEO show that country authorities had a more favorable view about accountability than the Board itself. They hold, however, a more mixed view on the degree to which their concerns and priorities were being represented at the Executive Board. In view of current shortcomings in voice and representation, it is not clear how a less executive Board could better serve the interests and address the concerns of member countries. Nevertheless, we see the need for the Board to set up a self-evaluation framework to assess its own performance.

The IEO makes a number of other useful proposals with regard to self evaluation of the Board, transparency, selection and terms of services of Executive Directors, grays and quality of discussions, and services provided to the Board by the Legal Counsel and the Secretary. We expect these, and similar other proposals to be considered as part of the work program of the Board and its committees, and we look forward to providing inputs for this work. In this regard, we attach particular importance to enhancing the transparency of Board operations. While we note with satisfaction the progress achieved in the preparation and availability of the minutes of the Board, we see room for improving the process of summing-ups of Board meetings. We support clarification of the publication and archives policies and consideration of a more liberal policy to the access to Board documents and archives.

Management

Despite recent efforts and initiatives, Management accountability is clearly an area where more substantive work is needed. However, the accountability framework should be tailored to the delineation of responsibilities. There are certainly areas where the Board could delegate more, but there are also important gaps in the Board's exercise of its fiduciary responsibilities. More work is needed to identify these opportunities for clearer and more efficient delineation of responsibilities, without undermining the authority and status of the two parties involved. We look forward to the finalization and implementation of the framework of the MD's performance evaluation set up by the Board although we would not accept that this has to be necessarily of a "two-way character" implying that the Board's assessment of the Managing Director stands at par with the Managing Director sharing his assessment of the performance of the Executive Board. We see merit, however, in the IEO recommendation that, as part of a self-evaluation process, the Board should seek the feedback of authorities, Management, and the staff.

Mr. Sadun and Mr. Cipollone submitted the following statement:

We thank the IEO for the comprehensive set of reports which provides a broad overview of the current structure and looks into possible ways to strengthen the Governance of the Fund. We also would like to thank the Managing Director for his concise and focused statement and the Legal Department and the External Audit Committee for clarifying a number of issues raised by the IEO.

The report provides recommendations on several aspects of the Fund's governance. Although some of them look interesting and deserve further consideration, a careful analysis of various alternatives and a close dialogue among all governance bodies involved is essential. Therefore, at this stage it is crucial that we determine the best way to proceed, including how to engage with the various governance bodies. We focus our comments on some of the recommendations as well as on the approach chosen to create the report.

The Procedure: Surveys Might Not Be Enough

Surveys could be a useful tool to describe the status quo and to shed light on the effectiveness of the current arrangements, but we are not sure that they constitute a sufficient basis to identify the best guidelines to improve the current setting. While we found the IEO survey sufficiently informative, seeking additional input is necessary in order to provide guidance on how to best adapt governance to international best practices and to respond to the governance challenges facing the Fund in the coming years.

We believe that a systematic comparison with similar institutions, including the World Bank, which has the same universal membership, a similar Charter, and the same origin, would have provided useful insight. By the same token, more detailed information on the recent evolution of corporate governance in the private sector and the weaknesses that have emerged in recent years would also have complemented the survey's input. Of course, any comparison should not neglect to take into due consideration the specific nature of the Fund's activities and products, mostly global public goods, as well as the role of its shareholders, sovereign states that are subject to regular assessments of their economic policy and are the institution's only clients.

In sum, although the IEO report, largely based on a survey, is a good starting point, we believe that a broader approach might have provided a more solid base to improve the governance of the Fund.

Management And Executive Board: Effectiveness And Accountability

The governance structure of the Fund is quite complex, reflecting the diverse activities. Therefore, the balance of power between Management and the Board depends on the nature of the decisions that are made. Furthermore, this balance has changed over the years. The deep Board involvement in daily business, witnessed in the first years of the Fund's existence, has been progressively reduced leading to the current situation, in which the Board mainly responds to Management's proposals. Still, the Board has retained a crucial role in outlining policy directions as well as in providing policy advice to its membership.

There is no doubt that the current governance structure and interaction between the Board and Management need to be strengthened, including a sharper definition of their reciprocal areas of responsibility. How should this be done? Should the Board fully delegate the daily business to Management and focus only on strategic issues?

We doubt that the Board supervisory role can be enhanced merely by reducing the scope of the Board's involvement. On the contrary, continuous participation gives the Board the necessary skills, opportunity, and insight to better outline strategic directions and tailor them to the rapid changes in the global and members' economies. We are afraid that without its daily involvement, the Board's contribution and its influence in steering and monitoring the Fund's activities would be substantially hampered, and its role would become largely formal. Moreover, focusing the Board's involvement and interactions with Management to strategic issues only might undermine the quality of its supervisory role.

How To Strengthen The Board's Work: What Role For Committees?

Ensuring that an Executive Board work with efficiency and credibility has always been a difficult task, particularly for global international institutions. While smaller Boards would be able to deal expeditiously with the flow of regular business, it might not be representative enough to act authoritatively (Lister, 1984).

Where more technical expertise is needed and more in-depth analysis is required, relying more on the work of committees appears to be a suitable solution. In fact, while recognizing that the Board remains the ultimately responsible body, committees can facilitate the Board's discussions by making recommendations to the Board.

Risk management is one of the areas in which a committee could play an important role in ensuring that the Fund meets the highest international standards. Since the discussion of the second report on risk management, an advisory committee, chaired by Management, was established and the Board has been sufficiently informed. Nevertheless, as has been said on previous occasions, the Board should be better equipped to carry out its diligence function in this area and should not be seen as the body responsible simply for putting the "seal of approval."

We remain convinced that without introducing an additional body, the Budget Committee is the natural place for discussing these issues in a more systematic way, considering also the substantial expertise that members have developed in this area. To this end, we believe that the Budget Committee mandate could be broadened.

With regard to surveillance, a Committee can help foster a more focused debate on the main challenges of a member's economy as well as on staff's policy recommendations vis-à-vis the member's authority views. While the Committee provides a forum for in-depth analysis on more technical and complex issues, its role is to better prepare and focus the Board discussion, which remains the only governance body to fulfill the mandate and fiduciary role on surveillance. Finally, we concur with the IEO that Committees should be chaired by a Board member, as is the case in other international organizations, including the World Bank.

Management And Board Accountability: Are New Tools Needed?

In principle, we are in favor of establishing a robust framework for assessing Management and Board performance. However, we need to avoid that these processes end up generating bureaucratic procedures, as was most often the case. We believe that the daily interaction between the Board and Management, with national authorities, and with the external public, provide plenty of opportunities for Governors and the public at large to assess the performance of Management and the Board.

Job descriptions for the personnel of the Executive Directors' offices could help in appointing people with the right skills, although the majority of the Board members currently come from Finance Ministries or Central Banks, institutions that already require skills similar to those needed for Board members.

IMFC: More Involvement In Building Consensus

We agree that the role of the IMFC should be strengthened in providing guidance to the Board on key issues and in building consensus in situations in which the Board has reached a deadlock. Recent experiences have confirmed the pivotal role of the IMFC meetings in paving the way and facilitating the Board's work in reaching agreements.

At the same time, we do not see any need to transform the current IMFC into a formal decision-making body. We concur with the IEO that frank and more informal discussions would further bolster the advisory role of the IMFC and ensure a deeper involvement of the Ministers. Accordingly, we welcome the informal meetings/breakfasts and lunches that have become regular features of the IMFC informal agenda, as they have been successfully used to address sensitive issues and build consensus.

Summing Up: A Greater Responsibility for the Board

We agree with the staff's clarification of the role of Summings Up. In particular, Summings Up on country items are aimed at conveying the Board's views and recommendations to the country's authorities independently from those already provided by the staff in the Article IV reports.

We agree with the IEO that Summings Up should better reflect and focus on the views of Directors as expressed in written (Gray) and oral statements. To improve the contribution of Directors in shaping the Summings Up, the draft summing up could be circulated to the Board at the time when it is read by the Chairman. This would help Directors provide a more constructive contribution to the Chairman without transforming the Board meeting into a drafting session.

With regard to policy issues, we believe that the current system that allows Directors to provide their input in writing during the following day is a satisfactory one.

Ethical Issues: Still Room for Improvement

We concur with the IEO that the current framework should be strengthened to bring it more in line with the best practices both in private and public corporations. Therefore, we welcome the MD's commitment to establish whistleblower protection and an anonymous mechanism for complaints. In this respect, lessons can be learned from the World Bank experience.

Financial disclosure procedures should be strengthened to include not only financial transactions that might lead to conflicts of interest, but also any other channels that could generate conflicts of interest with those responsibilities borne by Fund staff or Board members.

Finally on misconduct and conflict of interest issues regarding the Managing Director, we are satisfied by the clarifications provided by the Legal Department.

Mr. Fried and Mr. Perrault submitted the following statement:

As clearly acknowledged in the IMFC communiqué, the quota and voice decisions represent a decisive step in what should be an ongoing and concerted effort to improve the Fund's accountability and legitimacy. In identifying a number of weaknesses in the Fund's governance framework, the IEO report will allow us to build on these important gains by identifying measures through which the accountability of the various layers of the Fund's management can be enhanced, thereby helping to make the institution more effective in the dispatch of its duties. To ensure that inadequacies in Fund governance are addressed, we must set in motion a process that will see Fund management, the Executive Board, and shareholders working cooperatively to identify and implement changes that will lead to a meaningful improvement in the Fund's effectiveness. Our comments thus focus on how we should consider taking this process forward, as well as providing some preliminary views on some of the report's conclusions and recommendations.

The way forward should be guided by a common understanding of the Fund's mandate. The Fund primary objective is to ensure global macroeconomic stability and growth by advising its members in the areas of fiscal, monetary, and financial policy through surveillance and by helping members implement sound policies through the provision of technical assistance when required. This in turn places crisis prevention and resolution at the centre of the Fund's work: crisis prevention flows from the surveillance process, while crisis resolution can imply the need for financial resources from the Fund and a more direct engagement in member's economic and financial affairs. These responsibilities lay out the general framework within which the Executive Board and Management interact, and provide some context for the way forward.

Given the complexity of the issues at hand and their divisive nature, the Board should set up an ad hoc working group to manage the analysis and implementation of the IEO's recommendations, in the context of the broader governance issues on which the IEO report invites reflection. As noted by Messrs. Sadun and Cipollone, it is important that we not rely solely on the IEO's views, but also seek the counsel of outside analysts and organizations. The working group should ensure that competent CSOs are fully engaged in the process.[1] Perhaps most importantly, the group would ensure that various elements of the reform process, whether it be analysis or action-items, are referred to the appropriate Board committee or implementing unit. Where necessary, the Board should engage the IMFC deputies since many of the more important aspects of governance reform will require the input, guidance, and approval of capitals. In so doing, the Board would retain a hands-on role in the reform process, and will thus be able to work collaboratively with Management and the membership.

The working group should be viewed as a mechanism to accelerate the implementation of a meaningful reform of the Fund's governance structure. While there are many recommendations that require more consideration, or input from capitals, some of the IEO's recommendations could be put in place immediately.

Non-controversial recommendations that could be implemented in the near-term:

- An accountability framework for management should be implemented immediately.

[1] We note with some disappointment the lack of CSO participation in the IEO's survey. Only nine of 32 consulted organizations responded to the survey.

- The Board should develop and issue generic job descriptions for staff in the offices of Executive Directors. Directors should provide annual performance reviews.

- Induction and training programs should be strengthened for Executive Directors, Alternates, and Advisors.

- We could use committees more effectively by strengthening the committee structure. We can support the recommendations of paragraph 77 as is. In particular, we strongly support the creation of a human resources policy committee and an audit committee, as well as the recommendation that an Executive Director chairs each committee.

- The Board should receive independent legal advice from the General Counsel and the Secretary of the Board. We support the recommendations of paragraph 78. There is some sense of urgency to this recommendation since the Board will need independent advice in the reform process.

- Building on the success of last year's retreat of the Executive Board, the Board should put in place a regular process of self-assessment and adopt the recommendations of paragraph 79.

- Transparency should be increased further, as recommended in paragraph 82.

- There should be an open selection criteria for the FDMD and DMD positions. The recommendations of paragraph 85 should be implemented as is.

- The recommendations dealing with the Code of Conduct and "cooling off" period should be implemented (paragraph 86).

Some recommendations require further consideration, including consultations with capitals and external stakeholders:

- The IEO report raises important issues regarding the role of the Board, namely, whether the institution would be best served by a supervisory rather than an executive Board. While there is clearly some scope for the Board to be less involved in the day-to-day operations of the Fund, this should not be achieved by reducing the Board's involvement in surveillance. While we agree with the IEO findings that country reviews are often formulaic and that Directors often do not sufficiently challenge the staff's analysis, the solution to this problem is not to reduce the Board's engagement in the review process but to identify ways to make it more effective. This is an area where we need to devote considerable energy given the centrality of surveillance to the Fund's mandate. Building on the IEO's recommendations, we should ask ourselves how we could enhance the quality of the discussion on surveillance issues.

- Ethical oversight should be strengthened, but the IEO's recommendations deserve further study. It is critically important that external stakeholders be consulted in the design and strengthening of such a system.

- The Board should meet as required. This does not necessarily mean that it should do so less frequently. All too often, the Board's schedule is hostage to Management's availability. This occasionally results in too many items being scheduled for discussion on a particular day. This can lead to a less comprehensive review of the schedule items than would otherwise be the case.

The recommendations dealing with the IMFC must be digested in capitals:

- There is some intuitive appeal to the activation of the ministerial-level Council as recommended in the report. While this decision can only be taken by Governors, it is not clear that such a Council would realistically improve governance. Since communiqués would now become instructions to the Board and Management, the importance of the Board would decrease while giving greater de facto powers to the MD given his direct access to ministers. Giving greater powers to the MD would not lead to a meaningful improvement in governance arrangements.

- We agree with the recommendations concerning the functioning of the IMFC and the appointment of its Chair. There is strong merit in setting term limits, indeed there is already agreement that the Chair would remain in that position for no more than three years.

In moving this agenda forward, it is important that the Board and Management work cooperatively in identifying what needs to be done and how this translates into actual changes in the Fund's governance arrangements. In this light, we should perhaps view the IEO report as a starting point for our deliberations. It represents a comprehensive review of the strengths and weaknesses in the Fund's governance framework, but it nevertheless represents the views of only one set of analysts. Further consultation is required in a number of areas before we are in a position to make definitive recommendations on the Fund's governance. For these reasons, the working group would help the Board approach the challenge strategically, thereby maximizing the impact of our efforts to improve the Fund's accountability and effectiveness.

Mr. Moser and Mr. Weber submitted the following statement:

We commend the IEO for a thoroughly researched report whose conclusions reflect—and combine—a good knowledge of the Funds inner workings as well as independent judgment. The large amount of background analysis and field work consulting with stakeholders that has gone into the report is commensurate to the sensitivity of the topic, and we consider that the IEO has risen to the challenge. The report unambiguously argues that there is scope for improving the corporate governance of the Fund, in particular with regard to effectiveness and accountability. But it appropriately builds on the existing strengths of the institution in recommending such improvements, and we agree with this approach.

This evaluation differs from preceding IEO evaluations in that it does not mainly evaluate management's and staff's performance against a set governance framework, with the aim to provide independent feedback to the Executive Board in its governance and oversight responsibilities. Rather, it evaluates the governance framework itself, including how the Board exercises its governance and oversight responsibilities. Follow-up to the evaluation will thus require action not only from Management, but coordinated action also from the Executive Board and from Governors. Given the Executive Board's responsibilities delegated to it by members' authorities, the Board should play a leading role in the follow-up to the IEO report and in coordinating the consideration and implementation of governance reforms. Such a follow-up by the Executive Board, facilitated by a Working Group of Executive Directors, should substitute for the usual forward looking implementation plan.

A number of issues will require further discussions, including among capitals. These discussions will hopefully precipitate and reinvigorate a number of improvements already on the table or in the pipeline that one may consider part of the broad umbrella of governance. We are also aware that Fund governance is a topic on which many stakeholders have (differing) views, and that it thus cannot be confined to the actors in the governance structure alone. We should thus make the IEO report and its background material publicly available and encourage outside feedback and comments as further input into our discussions.

On the broad conclusions of the IEO report, we concur that it is essential to better clarify the respective roles of the different governance bodies, and in particular between the Board and Management. The overarching objective should aim at strengthening the Board's oversight role while respecting its fiduciary and surveillance obligations with regard to individual members. In support of this role, rules and mechanisms on information sharing with management and the Secretary of the Board may need to be strengthened as pointed out in the report. With regard to the IMFC, we consider the current "modus vivendi" whereby ministers provide political guidance to the Fund bi-annually to be well accepted, workable, and not in need of fundamental change.

In the following, we will comment more specifically on those IEO recommendations where we feel confident to do so at this early stage. These comments intend to make the case for what we deem realistic enhancements and improvements of the transparency, accountability, and legitimacy of the existing arrangements.

Recommendations Regarding the Executive Board (Paragraphs 69-82)

One important duty of the Board is to assure the accountability of Management. We consider the main elements of an accountability framework for Management to be broadly in place and welcome the recently established performance review mechanism for the Managing Director (and the Executive Board). We look forward to the Working Group's report on how to implement the framework. Nevertheless, existing tools could still be enhanced to give more precise feed-back to Management and to assess the performance of the Fund as a whole. A more targeted use of these tools could at the same time strengthen oversight over the implementation of agreed strategies and policies and ensure that necessary corrective action is taken:

- Periodic reviews over policies should provide a more candid assessment of the quality and outcomes of all of the Fund's main activities. Only then can they spur institutional learning and development. Besides assessing experience and monitoring progress, they should also seek to initiate adjustments where needed and set goals going forward.

- IEO evaluations and their follow-up well support the Executive Board's institutional governance and oversight responsibilities. The establishment of implementation plans has clearly strengthened the follow-up to IEO evaluations, but the Periodic Monitoring Report (PMR) could be put to better use in evaluating Management's performance, possibly by focusing separately on management accountability issues.

- In the Work Program Management sets its priorities and reports on them in the Report of the Managing Director (MD) to the IMFC. These key planning and reporting tools should be made more interactive, giving the Board a more prominent role. The respective discussions would allow the Board to give feed-back on Management's performance.

The IEO makes a case in favor of a more supervisory and less executive role of the Board. This is a complex issue and requires further consideration. We thought that the Legal Department's comments distinguishing between: (i) the efficiency with which the Executive Board conducts the business of the Fund; and (ii) the scope of the Executive Board's legal responsibilities were helpful. We also appreciated Mr. Mountford's emphasis in the background paper on the historical development of IMF Governance that much of the discussion about the value added by the Board in the surveillance process ignores that the Executive Board, as a political counterweight to the technocratic staff, provides the necessary legitimacy to the surveillance process.

While we see a case for strengthening the Board's supervisory role and for increasing the efficiency with which the Executive Board conducts the business of the Fund, we are much less convinced that the executive role of the Board in terms of legal responsibilities should be diminished. A Board with executive responsibilities is less at risk of losing touch with the realities of operations and allows for crucial synergies in exerting effective oversight and monitor an adequate and even-handed implementation of policies. As noted above, however, we fully agree that there is scope to increase the efficiency and effectiveness with which the Executive Board conducts the business of the Fund. We are open for reforming Board procedures that serve the purpose.

The recommendation that all Executive Directors be elected should be pursued further. The argument for treating all Chairs equally is compelling from a good governance perspective. In addition, a more level representation of members in multi-country constituencies would potentially better ensure even-handed treatment while also better distributing the work load within the Board.

As to a strengthening of the committee structure, the IEO's recommendations basically overlap with the recommendations of the Working Group of Executive Directors on Executive Board Committees of last October, and we continue to support these recommendations, including the establishment of an Audit and Risk Management Committee and a Committee on Human Resource Policies. The latter could be instrumental in facilitating the difficult Board decisions on staff remuneration and benefits.

We fully agree with the IEO report that it is critical for the Board to receive independent advice on legal matters from the Fund's General Counsel and on Fund procedures from the Secretary of the

Board, and that the board should thus play a formal role in the selection, performance assessments, and dismissal of these officials. The same logic also applies to the Economic Counselor and the Financial Counselor, who as Counselors of the Fund are Counselors of the Board.

The recommendations to improve transparency by making older documents more readily available are very welcome and should be taken up in the implementation plan.

Recommendations Regarding Management (Paragraphs 83-86)

The selection of the Managing Director should continue to be guided by the principles established for the Fund and the Bank in the 2001 Joint Report. It should, however, be noted that there has been significant progress in the selection process in recent years. Last July, the Executive Board assured an open nomination process. This being said, the recommendations regarding the selection of the First Deputy Managing Director (FDMD) and Deputy Managing Directors (DMDs) should be further pursued. We are open to a revision of the Code of Conduct to make its provisions explicitly binding on the Managing Director as well as on Executive Directors, and we strongly support a "cooling off" period for all members of the Management team.

We very much welcome the Managing Directors initiative to establish a procedure for "whistleblower protection," and we look forward to its finalization. We also support an equivalent application to complaints against Executive Directors.

Recommendations Regarding the IMFC and the Development Committee (Paragraphs 66-68)

While establishing the Council of Ministers could be an appealing option on various grounds, we do not see it as a desirable or realistic one. We consider the informal role of the IMFC an integral part of the institution and its procedures. As the IEO report shows, many of these informal arrangements have served the institution well because of the flexibility they lend in an often fast-moving environment. First, IMFC meetings have generally been successful in putting on the agenda the issues that are relevant and pressing. Second, IMFC communiqués shape the agenda for the next meeting and spell out what type of work is expected of the Fund and when. We consider it unlikely that adding another decision-making layer would either enhance efficiency, decision-making, or legitimacy. In addition, the establishment of a Council of Ministers would probably not gather more support today than it did at the time of the discussions held a decade ago. That is not to say that the role of the IMFC, which goes beyond giving advice, should not be clarified. In particular, its strategic involvement in forming and monitoring the IMF's activities should be made more transparent.

The recently adopted, but yet untried, framework for determining the Fund's surveillance priorities will pioneer a more prominent and consistent role for the IMFC in setting overarching strategic goals. Furthermore, the three-year review cycle allows for a tangible form of oversight over one of the Fund's core missions. We believe that assigning the IMFC this type of iterative involvement in defining fundamental strategic goals, and following-up on them at longer intervals, should be considered in other core activities of the Fund, such as technical assistance.

We agree with the recommendation to restrict the Development Committee's (DC) jurisdiction to the work of the World Bank. As discussed in response to the Malan report, a venue should be explored for holding joint sessions of the IMFC and DC on an as-needed basis.

Mr. Bakker submitted the following statement:

I thank the IEO for a highly informative report. It provides an excellent basis for discussions on modernizing the Fund and strengthening its governance.

General Remarks

- I share most of the IEO's recommendations for Management and staff, and, to a lesser extent, the Board. However, placing the IMFC/Council closer to the daily business of the Fund while extending the focus of the Board blurs the tasks and responsibilities of these two bodies. Indeed, I find the similarity of the recommendations for both Board and IMFC in this respect confusing. Ultimately, the functioning of the Board should be overseen by the Board of Governors.

- A clear definition and communication of the Fund's mandate are a crucial precondition to monitor and assess the quality of governance. I note that the report does not clarify how its recommendations will actually affect the performance on the four assessment criteria used (effectiveness, efficiency, accountability and voice) and what the optimal balance between them would be taking into account the mandate of the Fund.

- The Fund has been inward looking over the past few years, working on its finance model, its voting distribution and the downsizing. Now that these necessary changes, including in the Articles of Agreement, have been agreed upon, I would regret it if the current report refrains us again from taking a more outward oriented look, especially in light of the current financial turmoil and economic slowdown.

On the Board

I believe that a resident Board facilitates compromises and enhances multilateralism, as Directors build a personal relationship, are placed at a certain distance from national politics in their country of origin, and often represent more than one country. Shifting responsibilities toward the IMFC or a ministerial council could have a negative impact on the effectiveness of the Fund and the voice of members. Keeping in mind this general observation, the IEO's report provides in my view a good starting point for the welcome discussion on modernizing the working of the Board. I look forward to the follow-up work by Mr. Moser's working group in this regard.

I tend to agree with the IEO's recommendation that the Executive Board should dedicate more of its time on strategic issues. In this respect it could indeed be helpful to make more extensive use of Board committees. I am open to consider the option of the Board meeting less days a week, but consider this issue of secondary importance. I stress that Management and staff also have a responsibility in making it possible for the Executive Board to play an oversight role. For example, during the last Informal Country Matters only a limited number of countries have been brought to the Board and not the ones that matter in the current financial turmoil.

With interest I note IEO's observation that academic work indicates that executive boards, to be effective, should have no more than 10 members. I would be interested to learn how a model for a Board of 8 to 10 members would look like, as it could certainly increase the effectiveness of the Board. At the same time, I note that adequate representation is relevant for the legitimacy of a multilateral organization, and the IEO finds that the Fund's Board is already compact compared to other multilateral organizations. This balance between legitimacy and effectiveness is a question for our authorities and it is therefore useful that the IEO found the answer: 'more than 60 percent of the authorities surveyed think that the current Board size adequately balances effectiveness and representation, but about one-quarter thinks it should be larger.'

Having in mind this opinion of the authorities, I would appreciate more argumentation of IEO's recommendation to eliminate the appointed position of the Directors that represent the five largest shareholders. For example the report does not pay much attention to the fact that there are already three other single-country chairs that could represent more members. Also, I note that the five appointed directors are currently among the biggest chairs. Giving them the possibility to attract even more voting power might run against good governance principles. In this regard, I wonder why the drafters of the Articles incorporated the appointed Director clause. The comments of the Legal Counsel would be much appreciated.

Finally, I can support most of the other recommendations with respect to the Board. These include that there should be clear job descriptions for Directors and that the Board should be involved in the selection and performance assessment of the General Counsel and the Secretary. I also share the IEO's view that Summings-Up should be more transparent. Summings-Up should explicitly state what decisions the Board has taken and what the views of different (groups of) Directors are.

On the IMFC

In my view the IMFC is currently functioning reasonably well. Its communiqués play an important role in setting the Fund's agenda and the IMFC has recently shown negotiation capacity on major issues (e.g. by specifying the ingredients for a new quota formula quota last autumn). Moreover, the IEO does not pay much attention to the current complex checks and balances in Fund governance, where e.g. the Directors are accountable to their capitals in deciding and implementing the Fund's agenda. Therefore, the role of the IMFC does not need to change significantly. I do for instance not believe that the introduction of (split) voting would enhance the voice of smaller members of the Fund, as is suggested by the IEO. I rather foresee that it would further shift power toward the larger members and lead to polarizing the Fund.

Where I agree with the IEO is that the process of selecting the IMFC chair should be more transparent and open to all members and that a maximum term should apply. We also agree that IMFC members should be more actively involved in setting the agenda of the IMFC.

On Management

I agree with the recommendations regarding Management, i.e. considering the accountability framework, the transformation of the selection process of the MD and DMDs, opening these positions to all nationalities and to introduce a 'cooling-off' period before an MD can accept related private sector functions after leaving the Fund.

Finally, like the Board, also Management could use the IEO report as a good starting point to consider ways to improve its working. In my view, the Managing Director could increase his time devoted to strategic issues and his representational role, and delegate the daily and procedural issues, for which interference also makes him vulnerable, to his Deputies. I also see a stronger role for the Deputy Managing Directors in facilitating better cooperation between the different departments in the Fund. The current juncture, with ten new department directors, provides an excellent opportunity to foster such team spirit.

Mr. Mozhin and Mr. Lushin submitted the following statement:

We thank the IEO for the report on IMF corporate governance that touches upon a number of significant issues, many of which are important for the Fund's legitimacy and relevance. We note, however, that most of these issues are not new and that they have already been under the consideration of the Board and Management for many years. This explains why it is so difficult to make proposals that would be both practical and implementable. We also observe that the issues of quota and voice are left outside of the IEO's work on IMF governance, while it is exactly these issues that mostly determine the Fund's legitimacy in the eyes of the membership and international public opinion.

We also find the IEO's approach to be at times somewhat narrow and excessively technocratic, especially when they talk about "rewards" and "sanctions" for performance. The Fund as an international institution with nearly universal membership is too different from an ordinary corporation for comparisons of managerial practices to be meaningful.

The IEO report seems to imply that the Fund is an effective "fire-fighter" when Management works in an exceptional regime with "relevant stakeholders" designing the details of anti-crisis programs. We doubt that this is the case. Such an approach to the Asian crisis left numerous reservations in the affected countries and is widely challenged. This "informal governance mechanism" is not only "not without a downside," as the IEO admits in paragraph 15, but is a direct blow to the Fund's credibility.

We see the main proposal of the IEO report in transferring much of the executive and decision-making responsibilities from the Executive Board and the Board of Governors to Management and the yet to-be-established ministerial-level Council. We doubt that a "vertical of power" constructed this way would help improve the Fund's legitimacy and relevance. We think that it may have just the opposite effect, since this redistribution of responsibilities will most likely push the Fund in the direction of a business model discussed in the previous paragraph. Below we substantiate this position in more detail.

IMFC/Council

We do not support creating the ministerial-level Council as a formal decision making body with pronouncements having a legal status. First of all, it is not clear to us why Council members "would likely be more engaged in the business of the Fund than is currently the case with the members of the IMFC." Ministers and governors would continue to engage in the Fund's business during two short meetings per year and it is unrealistic to expect that they will become better prepared and/or capable to reach conclusions on important decisions within a limited timeframe. Having attended numerous drafting sessions of the IMFC Communiqué, we are frightened by the possibility that most important and legally binding decisions of the Fund would be prepared and taken this way. And if the Council's communiqués/decisions were to be prepared well in advance, we wonder what would be the purpose of the Council's meetings per se.

We also find it difficult to understand how many of the IEO's recommendations regarding the Council could be implemented (six bullets of paragraph 67). In particular, what would ensure greater transparency and inclusiveness for selecting the Chair of the Council? How could governors become more actively involved in setting the agenda than is the case for the IMFC? And what agenda is referred to here? The IMFC agenda has been pretty standard and straightforward over the last several years. How should the plenary sessions be modified to allow for substantive discussions, provided that they would continue to last half a day as is currently the case? How could the restricted participation in some sessions be combined with inclusiveness and representation objectives, given that many delegations include ministers and governors from other constituent countries? Finally, the proposal to vote in the Council is an invitation to a conflict at the ministerial level that would be immediately spilled out to the whole world.

During the last several years we have seen several episodes at the IMFC meetings of pushing through pronouncements that were not fully accepted by all members. The damage of these practices was, fortunately, limited because of the non-binding nature of the IMFC decisions. This, however, would change if Council decisions were to obtain the legal status. There is a non-negligible risk that in a situation of a limited time for discussions and decision-making, as well as different command of English across Council members, their subset would impose their proposals on the rest. We very much doubt that such a model of the Council's performance, which is not at all unthinkable, would be a valuable contribution to the Fund's governance.

Executive Board

We take note of the main IEO's recommendation for the Executive Board to play a more supervisory and representational role rather than an executive role. We find this general proposal to be rather ambiguous and controversial. In particular, we disagree with the proposal to significantly reduce the Board's role in bilateral surveillance. Board's consideration of Article IV reports gives the Fund's surveillance the seal of international approval, without which the Fund's country reports would be indistinguishable from analogous reports of various think tanks, which are many. Moreover, participation in bilateral surveillance is essential for the Board and enables it to address other issues related to the Fund's business, like multilateral and regional surveillance, surveillance over exchange rates and various policy issues. Without being familiar with economic developments in individual countries, which is the core of the Fund's mandate, the Board's capacity for oversight of the Fund's activity in general would be undermined.

We have an impression that behind the whole idea of making the Board "less executive and more supervisory" stands the vision of the Fund as a fundamentally technical institution, broadly along the lines of independent central banks. The whole discussion in the report of the "value added" provided by the Board seems to be based on such a vision, which we consider to be erroneous.

We have many questions concerning other specific IEO's proposals for the Board's work and areas of responsibility. For example,

- Para 71: "The Board should give greater emphasis and develop more effective processes to provide oversight over the implementation of agreed policies and strategies." We have been doing this for years, including in the context of Article IV surveillance, and if the IEO staff sees more room for improvement they should be more specific.

- Para 72: "The Board should play a more active role in setting its agenda." What kind of agenda is this and how does it differ from the Fund's existing agenda?

- Para 73: "The Board should meet .. for one week a month" and use the freed time "to do the background work needed to have greater impact during meetings." With little involvement in surveillance and program country matters, this would make the Board idle for most of the time. Could it be a first step in the transition to a non-resident Board?

- Or maybe the Board should spend the bulk of its time evaluating everyone and everything: its staff, itself as a whole, committee (and their Chair) performances, the Secretary and the General Counsel, Management (paragraphs 70, 75, 77, 78, 79)? Is this what the IEO means by a greater supervisory role of the Board?

- Para 78: We wonder why the General Counsel and the Secretary have been singled out as important persons for the Board to receive advice from. In the same vein, we could include the Economic Counsel for advice on economic issues, FIN Director—on financial issues, PDR Director—on policy issues, etc.

A few more comments on the issues pertaining to the Executive Board:

- Recommendations of paragraph 75 are excessively intrusive, especially for multi-country constituencies. They should be able to figure out themselves how to appoint and evaluate their staff.

- We agree that all Director positions should be elected and that Directors' terms of service could normally be expected to last three years.

- The accountability framework for Management is an important issue for the Board and work has already been started in this area, as explained by LEG in the staff statement. We would only note in this context that the IEO's recommendations on such a framework would be extremely difficult to implement in a meaningful way (who knows how to judge and measure the quality and outcomes of the Fund's activities?).

- On ethical oversight, whistle-blower protection is expected to be introduced soon, although this system as a whole is rather controversial and, as experience in other institutions has revealed, can become subject to much abuse by the whistle-blowers themselves. The proposal related to the Code of Conduct for the Board can be taken up by the Ethics Committee.

Finally, we cannot leave without comment the assertion in paragraph 51 that "because of insufficient financial-sector expertise, the Board found it hard to integrate financial-sector issues adequately into discussions of macroeconomic conditions." We believe that here the IEO found a wrong villain. The problem, as far as we understand it, is that financial sector analysis is still not yet adequately integrated in bilateral surveillance in general, and the staff is doing much work in this area. As soon as this work is successfully completed, we are sure that the Board will make every effort to fully discuss the financial markets' developments in the context of Article IV consultations.

Management

We agree that "the selection process for the Managing Director should be reformed" (paragraph 84). We see, however, that political realities and the existing allocation of quotas make this recommendation difficult to implement without good will of some members, as well as their understanding that the existing practices are perhaps among the most detrimental factors for the Fund's legitimacy and relevancy. In the same vein, we agree with the proposed modalities for the Deputy Managing Directors' selection process.

Mr. Kishore and Mr. Bannerji submitted the following statement:

We have gone through the IEO's report on a crucial subject relating to IMF Governance. It has attempted to cover a large number of issues on which debate has been ongoing for quite some time. In this, the Report is an important assimilation of such views and forms an important input, going forward, though there are important areas on which the report has been silent.

It would, we believe, be premature to pass judgment on the major recommendations at this early stage. What is important, at this stage, is to initiate a process which must be collaborative in nature, encompassing views of the Executive Board, management, staff and country authorities. Many of the recommendations fall within the competence of the Governors and detailed discussion of these with country authorities is imperative. Thus, we view the IEO Report as a necessary first step in addressing the issue of governance in the Fund, but final views, consistent on other aspects of corporate governance, can only be distilled and culled out after more detailed consultations

Our initial perusal of the report has led us to believe that the major recommendations can be divided into two broad categories:

(A) Those recommendations which require minimal action and which, prima facie, we can agree with. These include:

- Satisfaction with Board Summing Ups, and highlighting the scope of improvements;

- Accuracy and clarity of IMFC communiqués;

- A more transparent and merit based selection of the Managing Director, First Deputy Managing Director, and Deputy Managing Directors.

(B) Those recommendations which will require detailed deliberation, and which if adopted will require a somewhat longer time frame for implementation. While we do have preliminary views on many of these recommendations, we need to deliberate further on them. Our suggestion at this stage is that the preliminary task of discussing those recommendations be left to an informal Group of Executive Directors (not a formal sub-committee as such) whose final views on each individual recommendation can then be considered by the Executive Board, at large, without prejudice.

Lastly, we are disappointed that the Report has either been non committal, or silent on at least on two important issues critical to Corporate Governance, namely:

- A clear cut recommendation on the optimum size of the Board; and

- The desirability, or otherwise of separating the roles of Chairman of the Board of Directors and the Chief Executive Officer of the Fund.

Mr. Alazzaz submitted the following statement:

I welcome today's discussion on the report of the Independent Evaluation Office (IEO) on aspects of IMF corporate governance. The highly readable and insightful report identifies both the strengths and weaknesses in the Fund's governance and provides a set of recommendations to address these weaknesses. Given the complexity and sensitivity of the issues raised in the report, I will only make a few preliminary comments at this stage.

I welcome the finding that the Fund is highly effective as the "fire fighter" of the global financial system. However, the need to rely on alternative mechanisms that shift discussions and decision making out of the Board and into a smaller group of policy makers to achieve effectiveness is problematic. Indeed, the IEO report rightly notes that this informal governance mechanism lacks the ability to ensure ex-post accountability for the decisions taken. The problem would be compounded if some aspects of this informal governance mechanism extended beyond crisis situations to the preparation of policy papers and program related issues in the Fund. The IEO comments would be appreciated.

The International Monetary and Financial Committee (IMFC) has already evolved into an effective mechanism for the membership's engagement in the Fund's decisions at the political level. Indeed, while its role is formally an advisory one, its recommendations are clearly viewed as guidance by both the Board and Management. Accordingly, the proposed shift to a Council would be more of form rather than of content. However, the formal change also has important implications in view of the differing voting provisions between the Executive Board and the Council. The shift from the established practice of consensus in the IMFC to a system that includes voting in "extreme circumstances" in the proposed Council also has important implications. Moreover, the impact of a change from the IMFC to a Council on the role of the Executive Board needs to be fully explored. This highlights the importance of adequate reflection and exchange of views toward an informed approach to the Council idea.

On the role of the Board, I see merit in the recommendation to shift the Board's activities toward a more supervisory role. Indeed, it is critical for the Board not to micromanage the institution. At the same time, the IEO's proposal to reduce the Board's meetings to one week a month appears to take this shift too far. This of course does not mean that the Board should not streamline its work and allocate its resources more effectively to enhance value added. In this regard, the IEO report suggests that a consideration of the modalities for the Board's involvement in Article IV surveillance process may be in order. Moreover, as noted in the IEO report, "it is critical for the Board to receive independent advice on legal matters from the Fund's General Counsel and on Fund procedures from the Secretary of the Board."

Still on the structure and workings of the Board, I am of the view that the current Board size adequately balances effectiveness and representation. However, strengthening the committee structure could be most helpful. Indeed, a strengthened committee structure could facilitate more in depth analysis and follow up on the implementation of Board guidelines. It could also lead to an earlier involvement of the Board in policy formulation.

I remain convinced that the benefits of the increased issuance of grays far outweigh the shortcomings. This of course does not mean that we should not strive to shorten and increase the value added in the grays. However, such shortening is somewhat restrained by the summing up process, which equates silence on an issue with agreement with the staff's views.

I agree with the IEO that the selection process for the Managing Director and Deputy Managing Directors should be based mainly on the candidates' qualifications and likely effectiveness and that competition be effectively open to candidates of all nationalities. That said, the Managing Director should have full latitude in hiring the Deputy Managing Directors subject to diversity considerations, but be held accountable for their performance. In this regard, the ongoing work to develop performance objectives to enhance the accountability framework for the Managing Director is a step in the right direction. Here, it will be useful if the IEO could elaborate on what additional steps are needed to address the accountability gap.

Going forward, it is clear that further discussions on these issues are called for. Indeed, agreement is needed not only on the broad aspects of the proposals, but more importantly on the details of those proposals and how to implement them effectively.

Mr. von Stenglin and Mr. Haupt submitted the following statement:

We thank the IEO for putting forward a comprehensive report on the Fund's corporate governance, spanning a wide range of important, yet complex issues. We also thank the Managing Director and the staff for their statements.

Overall, we share the IEO analysis of the current governance system in important parts. In particular, we agree that the Fund has been operating in a remarkably effective manner by the standards of universal intergovernmental institutions. It is also true that the Fund, by the same standards, is a relatively lean and efficient organization, today and even more so after the current refocusing and downsizing exercise. As regards voice and accountability, the former is clearly set to make an important step forward in the course of the ongoing reform of quotas and voice. On accountability, we are perhaps somewhat less concerned than the IEO, but we agree that the framework would benefit from certain adjustments. More generally, the IEO usefully points to the interactions, including possible trade-offs, between the four governance dimensions. We consider that these trade-offs cannot be fully resolved in each and every case.

We are less persuaded by some of the recommendations of the IEO to change the IMF's governance system. At a general level, and as already noted, the comprehensive set of reforms already underway will have wide-ranging implications also for the institution's governance. The Fund may wish to see how the impact of these reforms unfolds, before embarking on new major initiatives. In addition, we consider that the case for some recommendations, including on the respective responsibilities of the IMFC, the Board and Management, is not convincingly made and at times even contradictory.

From a procedural point of view, any substantive governance reforms would need careful deliberation, given their potentially far-reaching ramifications. The usual three-step approach—IEO report, implementation plan, monitoring report—would clearly not be appropriate in this case. Special procedures for moving forward thus need to be agreed on. On the initiatives mentioned in the Managing Director's statement, we look forward to the Managing Director sharing these with the Board before any public announcements be made in this context.

In the following, we shall present our preliminary views focusing on some of the more significant recommendations, given the early stage of the process and the broad coverage of the report.

Executive Board

In our view, the Fund's proven effectiveness, including in times of crisis, broadly validates the structure and division of labor of its main bodies of governance. We do not share the IEO's criticism that the Board's role in strategy formulation and monitoring policy implementation has been weak and ineffective. The recent IMF reforms are but one example of the Board's capacity to act strategically. To be sure, being proactive and exercising effective oversight is a demanding task that requires hard work and cannot be taken for granted. However, we find little in the report to suggest how this role could be effectively strengthened, except that the Board's executive role should be reduced.

We doubt that the Board's supervisory function would be strengthened simply by paring back its executive role. Indeed, we tend to believe that the opposite is true. In our view, while there may be other factors inhibiting effective supervision, an adequate Board involvement in the business of the Fund is actually conducive to monitoring policy implementation and developing new policies. This is so because country-related Board meetings raise policy issues all the time and are thus part of the actual monitoring of these policies. In addition, it is the expertise gained in these meetings that puts the Board in a position to perform effective oversight in the first place. That being said, and in view of the reduced budget envelope, we fully agree that there is scope to streamline considerably the operations of the Board without unduly compromising its executive function.

We would be open to discussing several other Board-related proposals aimed to enhance effectiveness and accountability, including those to strengthen ethical oversight, to increase Directors' terms of service, to improve access to independent advice, and to grant the Board a role in agenda-setting.

IMFC and Development Committee

We do not see a need nor much merit in establishing a ministerial-level Council to replace the IMFC. It is not clear to us what exactly the IEO envisions the tasks and mandate of such a body to be. If the body is to obtain not only a formal, but also a stronger substantive role in supervising the institution, we sense a tension with the similar proposal to strengthen the supervisory role of the Board. The overall result would in our view not be an improvement in the division of responsibilities and hence in accountability. Moreover, we have serious doubts about the practicality of such a move. Even overarching strategic decisions will likely require fairly extensive discussions to build consensus. It is difficult to imagine how such discussions could be concluded in one meeting only.

If, however, the IEO proposes essentially to formalize the role the IMFC is already playing today, we do not see much valued-added in such a change. As shown in background paper 08/03, the transformation of the Interim Committee into the permanent IMFC in 1999, while of limited formal relevance, led to substantial improvements in the operation of this body. The IMFC is effectively, if not formally, providing strategic guidance to the institution on a semiannual basis. It performs this function fairly effectively, as also acknowledged by the IEO. We are not convinced that much would change if this role was formalized. This holds also for the sense of ownership at the ministerial level. Ministers currently bear the ultimate responsibility for the positions taken by their Directors at the Board and are likely involved directly by their staff in the decision-making process on important strategic issues.

As regards the term and selection process for the position of the IMFC Chair as well as the mandate of the Development Committee, we find merit in the IEO's proposals and are open to discussing these further.

Management

We support the reform of the selection process for the Managing Director, taking into account the principles set out in the 2001 Draft Joint Report of the Bank and Fund Working Groups to Review the Process for Selection of the President and Managing Director. In addition, an open selection process for the First Deputy Managing Director and Deputy Managing Director positions should be introduced, with the Managing Director having the final say. While diversity should be one of the elements of the selection, none of the Management positions should be reserved for any particular nationality or region. As envisaged in the 2001 Joint Report, these changes should be adopted in parallel in the World Bank.

Mr. Ge and Ms. Lin submitted the following statement:

We thank the IEO for the comprehensive papers and welcome this opportunity to exchange views on this important issue as the Fund's present governance structure is not sufficiently adaptive to the fast-changing world economy, despite the gradual reforms and fine-tuning of recent years.

As an inter-governmental and multilaterally cooperative organization, the Fund needs a governance arrangement that ensures appropriate representation for its members to exercise due supervision and enable the Fund to effectively promote international monetary cooperation and maintain global financial stability in an increasingly globalized environment. It is undeniable that quota and voice are the building blocks for fair and equitable representation and the passage of prominent decisions—particularly those of strategic significance—hinges on the actual voting powers of individual member countries, although the Board has formed a tradition of making decision on a broad-consensus basis. In this sense, there is the problem of conflict of interest arising from the diverse quota share of member countries. For instance, on some important issues, due to the considerable disparity between different groups of countries in terms of quota and voting shares, final decisions are influenced by groups of countries with higher voting shares, while the developing countries find it difficult to garner support because of their low voting shares. Although hard won, the recent quota and voice reform marks but modest progress in improving the distribution of voting power among the membership, weakening the Fund's role in the global economic and financial arena.

Given the complexity and difficulty in further overhaul of the quota and voice issue among the membership, we believe that proper adjustment to the Fund's governance bodies—the IMFC, Executive Board, and Management—have, to a certain extent, the potential to strengthen the Fund's legitimacy, accountability, and effectiveness. It should be noted, however, that revamping the Fund's governance was never meant to be easy; the checks and balances between the three governing bodies demonstrate that any stand-alone reform cannot achieve the desirable outcome, calling for a more systemic approach. It is preferable to come up with a step-by-step work program by sequencing and prioritizing the reform process of these governing bodies. In response to the main IEO recommendations we wish to make the following points.

The IMFC

Despite the IMFC's important advisory role, there is a growing perception that the Fund's governance framework fails to be effective on politically charged issues, including the outstanding issue on the allocation of SDRs. To promote effective resolution of these issues and reinforce political accountability, it is worth reconsidering the idea of a Council as an intermediate political decision-making body—between the Governors and the Executive Board—a notion already contemplated in the Articles of Agreement. However, we have a number of concerns as follows.

- In 1999, when the Interim Committee was transformed into the IMFC, two ministerial fora—the G-20 and Financial Stability Forum—were created with close links to the Fund but outside its governance. The responsibly of both groups has overlapped with the Fund's mandate in terms of crisis prevention, although they have facilitated consensus-building on international policy issues and provided important input to maintaining global financial stability. Should the Council come into being, it remains uncertain how the international community would deal with these two outside groups in avoiding the unnecessary duplication of mandates while safeguarding the authority of decisions made by the Council.

- The Articles of Agreement provide that the votes of each chair can be split at the Council—unlike at the Board—underscoring the significance of quota and voice, even though the IEO recommends that the Council's decision-making strive for consensus and that voting take place only in extraordinary circumstances. For the reasons we mentioned above, the Council should be launched only after significant progress has been made on the quota and voice reform, otherwise it risks augmenting the inequitable representation of developing countries.

- With the launch of the Council, the role of its Chair will become increasingly important. Experience with the IMFC indicates that the Chair can disproportionately influence the content of communiqués while the views of other governors are not reflected appropriately. The selection process for the Council Chair must be explored further as well as the proposed term limit and extended geographic consideration to developing countries.

The Executive Board

The mandate of the Fund and good governance of the international monetary system demand a strong Executive Board. The current selection of Directors and their terms of service are broadly suitable; improved representation should be achieved through changes to the structure of the Board.

One of the most contentious issues regarding reform of the Executive Board is likely to center on how the role of the Board should be defined and what is its optimal business model. The IEO recommends that the Board actively addresses the main gaps in governance—weak oversight over Management and the ineffective monitoring of agreed policy implementation—by making the Board more a supervisory organ than an executive body. Even the Articles of Agreement offer little insight in further clarifying the role of the Board, simply stating 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". The Articles do not distinguish between business of a supervisory nature and that of an executive nature, leaving ample discretion for interpretation of the legal role the Board can play. Our impression is that the de facto role of the Board is a combination of supervisory and executive functions, making it difficult to separate one from the other. As far as the Board is concerned, a delicate balance needs to be struck between being a more supervisory body without delegating too much to the Management in areas that have an extensive influence on the Fund's membership.

Given the downsized manpower in Executive Directors' office in the tighter budget context, it will be prudent for the Board to focus on strategic issues which have a critical bearing on the Fund's long-term development, and reduce its direct involvement in day-to-day operations. To ensure the effectiveness of Board operations, it will be equally important to revise the Board's current model for business which can be broadly classified as surveillance, policy issues as well as administrative and budgetary matters. Building on their different business natures, it would be logical for the Board to delegate more to its Committees or to Management in terms of administrative and budgetary matters so that the Board could be freed of these administrative issues while allowing the Committees to work on the issues in greater depth. In the meantime, the Board might consider setting up working groups or caucuses to research important policy issues independently of Management. When it comes to surveillance issues, it might be advisable to bundle the discussion on countries within a certain region to different groups of executive Directors to enhance value added for the full Board.

Management

The Managing Director (MD) is both the non-voting Chairman of the Board and chief executive officer of the institution. As such, the accountability and capacity of the MD are central to the responsible running of the Fund.

In our view, there are significant weaknesses in the Fund's internal governance arrangements and decision-making process. In particular, the words and deeds of Management should be consistent with their responsibilities. We support establishment of a clear accountability framework for the MD and are encouraged to learn that a performance feedback mechanism is already in place to allow the Executive Board to assess the MD's performance and that a working group has been formed on the framework of the MD's performance evaluation. However, we want to emphasize that the accountability framework for the MD should embody being held accountable for mistakes in important international financial matters as well as policy advice to member countries and "owing his duty entirely to the Fund" as stipulated in the Articles of Agreement.

As previously advocated, the selection process for a new MD should be more transparent. We endorse the IEO recommendation that the position be open to candidates of all nationalities rather than to specific countries or regions as is the current practice. The selection should be based on the candidate's personal qualifications and performance rather than interest groups he/she represents. In addition, to achieve a more fair and equitable voice among member countries, the proportion of nationals from certain countries at Management and staff levels should be taken into account in reforming the Fund's governance structure.

In conclusion, rationalizing the Fund's governance arrangement not only benefits the reformed governing bodies themselves, but helps enhance the role of the Fund in international economic and financial world. Consequently, we call upon all parties concerned to be mindful of these gains and work toward a pragmatic and efficient reform program, although the process has a long way to go due to the diverse interests among its membership.

Mr. Henriksson and Ms. Roos Isaksson submitted the following statement:

We would like to thank the IEO for their important and timely report on the Fund's governance structure, and for the many interesting accompanying papers. The Fund has clearly to adapt to an ever changing world to stay relevant. We are appreciative of the analytical framework used in the report; as we believe that the four dimensions applied help to identify both the strong points and the deficiencies of the Fund's governance. However, we also believe that the framework could possibly have been used more coherently across each and every function of the governance bodies to better follow up on the arguments.

We are also thankful for the Managing Director's statement and comments made by staff.

The issues covered by the IEO report are, indeed, wide ranging and there is not one simple solution which would - like a magic bullet - strengthen the Fund's institutional framework. At the same time, this should not be an argument for maintaining the status quo. For that reason we, like the Managing Director, view the IEO report as a valuable input for the next steps of our discussions on the Fund's governance reform. We believe that these discussions should be buttressed by collaboration and openness between all involved parties, as well as with partners outside the Fund.

Some of the recommendations in the IEO report seem easy to implement quickly, while others surely will require careful consideration. Going forward, we need to identify those issues that will require thorough analysis, and channel them through to groups of Board members, shareholders or staff members. Some questions will, surely, require consideration in capitals. For these purposes we are supportive of establishing an informal working group of Board members, as suggested by Mr. Fried and Mr. Perrault.

While we support the main thrust of the IEO report, which recommends that there be more clarity in the role of the Fund's governance bodies, we do not agree with all the suggestions. At this point in time we will, nonetheless, refrain from commenting on all the recommendations, as we look forward to discussions yet to come.

As a more general observation, we take note of the conclusion that greater clarity on the Fund's governance structure is needed to facilitate stronger accountability and voice within the institution. As a corollary - even in view of the recent quota reform - we would argue that the Board should remain sufficiently broad to ensure adequate representation of poor and rich, as well as small and large countries. We do not want to weaken the legitimacy of the Fund. The effectiveness of the Board is not defined by its size, but rather by its ability to be operational, to perform effective oversight over management, and to deliver high-quality output in a timely manner. Against this background, we have the following more specific remarks.

Concerning the suggestion for greater ministerial-level involvement, we would like to further discuss the proposal to activate the Council as a way to address some of the weaknesses of the IMFC. We are not convinced that the advisory role of the IMFC poses a legitimacy problem, as stated by the IEO. For this reason, we need further arguments regarding the expected legitimacy gains in the Fund's decision-making process by moving to a Council arrangement before we can come to a firm position on this proposal.

The suggested shift to a more supervisory role of the Executive Board brings a somewhat ambiguous connotation. We believe that the Board should remain the executive body with an overall responsibility for the policy agenda, as well as the framework for management's responsibilities. Still, we agree that there is scope for shifting away from micro management, routine items and day-to-day operations, thereby creating room for more strategic Board discussions. This could be achieved through streamlining the Board's practices, for instance by using the committee structure more effectively and increasing the use of lapse-of-time procedures for decisions. Moreover, we do not prescribe to a specific frequency of Board meetings, but would advocate meetings with planned regularity.

Although we see room for streamlining the Board's practices, we would like to comment specifically on Article IV matters, which the Board spends significant time on. We believe this issue should be approached from a perspective of legitimacy and equal treatment. It is, therefore, important that Article IV consultations, which constitute the Fund's core business, should not be perceived as being only the result of internal staff discussions. For this reason, and even if we support strengthening regional surveillance and see merit in bringing groups of countries to the Board, we would encourage further work on ways to improve the overall surveillance process. The Board itself should look into this issue.

On the issue of Board committees, we are supportive of the proposals to strengthening the structure. Committees could be a way to increase effectiveness of the Board, and serve as a pragmatic way to approach the issue of voice in the decision-making process, as well as create a forum for a more elaborate and open dialogue. Nonetheless, further analysis is needed given the previous difficulties encountered in establishing a well-functioning committee structure, and to safeguard efficient representation among counties and constituencies.

We believe that we need to further elaborate on the proposal to select all Directors through an election process. Opening the door for new multi-country constituencies involves in our view political and legal considerations, as well as consequences beyond the mere redistribution, which the IEO does not elaborate further on. Therefore, we feel that this proposal merits more scrutiny, and should be discussed within the context of an overhaul of the Board's structure, before being taken forward.

Moreover, we support lengthening the term of service of Directors, at the same time as we think that it may be worth considering an upper limit on the term of their appointment. In view of our own good experience with job descriptions, we can only agree with the proposal to develop guidelines for Directors, as well as for other positions in Directors' offices.

We also welcome the accountability framework for management underway. In this regard, we are open to discuss the pros and cons of having the Managing Director as the chairman of the Board. There are advantages with this set up, as well as with a chairman elected among its members.

We are supportive of strengthening the Fund's transparency policy, and of bringing it better into line with best practices in international organizations. More specifically, we support shortening the standard length of time before Board documents are made publicly available, and reviewing the current criteria for classifying documents. In this context, we also support a more open process for the selection of the IMFC chairman, the Managing Director and his deputies.
The 2001 Draft Joint Report of the Fund and Bank should be approved and implemented.

Moreover, we concur with the IEO that a whistle-blower protection should be introduced in the Fund, and welcome that work is already underway to establish such a protection.

Last, but not least, we would like to convey our skepticism towards the proposal to restrict the Development Committee's jurisdiction to the World Bank, as financial sector issues are an important element of the development agenda.

Mr. Kotegawa and Mr. Kihara submitted the following statement:

We thank the IEO for presenting their wide-ranging analysis on IMF corporate governance. The report contains several useful insights, which deserve further consideration.

With regard to many recommendations provided in the IEO report, this chair cannot agree at this stage, or needs further elaboration before expressing firm views. Additionally, the preparatory process of this meeting's summing-up, or future implementation plans, will need to appropriately reflect the nature of today's discussion.

IMFC and the Development Committee

We recognize that the establishment of the Council has both its merits and demerits.

In terms of benefits, the Council makes it possible to garner political commitments in the form of formal Fund decisions. The decisions of the Council, with their formal status within the Articles of Agreement, could also enhance accountability since they would be viewed as more legitimate than the current IMFC communiqué. With a clear-cut mandate given by the Council, the Board could indeed sharpen the focus of its deliberations. We could also say that the Articles of Agreement anticipate the establishment of the Council.

On the other hand, it is true that past IMFC communiqués have gained broad acceptance by member countries. Thus, the establishment of the Council might not change the quality of discussions nor change the involvement of the Board or that of staff in a meaningful manner. If this is the case, contrary to the anticipated change in political commitments, the activation of the Council might not produce any material difference. Under the format of the Council, it would also be difficult for some member countries to follow up on ministerial-level discussions, even though a member's possibility of splitting votes could mitigate this concern to some extent. Also, some concerns could emerge regarding how to deal with issues that might not be well suited to be politicized. For instance, we may have to be careful when discussing the strategic direction of monetary policy, as it might not benefit from an overly political influence. Lastly, while the IMFC has stressed the importance of consensus, the possibility of undertaking a formal vote could raise the concern that minority views would not receive sufficient attention under the Council.

Recognizing and bearing in mind the above-mentioned merits and demerits, this chair is open to further discussing the possibility of establishing the Council.

In our view, the value-added by the IMFC-D is relatively small, and we are ready to consider streamlining measures, including its abolishment.

Regardless of the activation of the Council, we share the IEO's view that there is some room for allowing more substantive discussions among governors. One quick step, that could generate progress in this area, is to set a more concrete and focused agenda. During the past few years, the agenda of the IMFC has been the world economy and the IMF's reforms. This practice could be changed so as to bring about more lively discussions. Restricting participation to governors, as in the case of the recent informal breakfast meetings, is another possibility that merits consideration.

Executive Board

As the IEO report points out, the current Board involvement in the Article IV process presents large room for improvement both in efficiency and value-added. This chair strongly supports bringing about far-reaching reforms in this area. In this sense, we understand the IEO's point that the Board refrain from being overly involved with day-to-day operations, and reduce resources allocated to its executive role.

Notwithstanding, even if the Board's involvement were to decrease at the implementation stage of the Fund's strategy, it would be critically important that the Board continue to perform an effective role in determining and following up on such strategy. If we use recent examples, sufficient Board involvement is desirable in terms of the implementation of the 2007 Decision, the preparation of its Guidance Note and the review of Conditionality Guidelines, or the Fund's reaction to the global financial turmoil and the food crisis. At the same time, the Board might benefit from making more use of the lapse-of-time basis procedure, and streamline its workload in some areas. More frequent and ad hoc usage of seminar and briefings could also contribute to enhance communication among the staff, Management, and the Board.

We can determine the appropriate frequency of Board meetings only after the role of the Board is clarified. Nonetheless, in terms of efficiency, the proposal to hold Board meetings for one week a month does not seem to be realistic.

With regard to the number of chairs, this chair has the impression that the current size of the Board is relatively large, and supports considering a reduction in the number of chairs. While we share the IEO's point regarding the Directors' terms or the process to select advisors and senior advisors, these issues might have to be determined through discussions between the Executive Directors and constituency countries.

We take note of the IEO recommendation regarding Board committees. We recognize the possibility that more frequent usage of committees could result in a less efficient Board operation due to repetitions of the same discussion. This possibility needs to be mitigated in order to streamline the Board process.

Management

We support the IEO's recommendation on the need to establish a clear accountability framework for Management. We understand that a working group has already started considering this important issue and look forward to receiving its outputs in a timely and appropriate manner.

We see no problem in the current legal framework of the Articles of Agreement, which stipulates that the Board selects a Managing Director, and the Managing Director is responsible for the organization and appointments.

With regard to the post-Fund-career of the Managing Director and the Deputy Managing Directors, we view it important to establish an appropriate framework so as to deal with any potential conflict of interests.

Mr. Gakunu and Mr. Aboobaker submitted the following statement:

We welcome the IEO Evaluation of the Fund's corporate governance, which we find comprehensive and rich in content and insights. The report raises important issues, especially on how the Fund can continue strengthening its effectiveness, and provides substantive recommendations to address the perceived governance gaps. In particular, we agree with the IEO that the main strength of the Fund—its effectiveness—would be seriously undermined if challenges to its legitimacy (notably on accountability and voice) and relevance are not responded to with some urgency.

This is rightly the beginning of a process that would go well beyond the quota and voice issue that so far we have attempted to tackle. The issues raised in the evaluation are sufficiently important and the recommendations substantive enough for further deliberation by the Executive Board. It is in this respect, therefore, that we see today's discussion as preliminary, and the views expressed should be further examined carefully in an appropriate forum (such as during a Board retreat or by a special Working Group of the Board) before the Board reconvenes at some future date to discuss the conclusions and decide on the way forward. Therefore, it is in the same vein that we welcome the Managing Director's readiness to take the governance reform forward, as expressed in his statement, in concert with the Board

We share most of the concerns and believe that the recommendations merit consideration. Like the EAC, we support the main thrust of the paper that calls for "more clarity in the role of the Executive Board and … more emphasis … on the supervision and oversight of the functions of the Fund." We would therefore like to provide observations on areas where more work needs to be done. We see as appropriate the analytical framework for the evaluation referring to the four dimensions of effectiveness, efficiency, accountability and voice, to discuss the Fund's overall governance structure and practices.

Effectiveness

The report identifies the main strength and strongest feature of the Fund governance as its effectiveness, which is supported by the compact management style with tight controls and the ability of the institution to respond quickly when it is required to do so. It alludes that this is possible because of informal governance mechanisms—the relationship between the Managing Director and G7 finance ministers as well as those in the systemically important economies; the relationship between senior staff and senior government officials in the systemically important economies; etc. However, we would like to know whether there are downside risks to this style of operation … for example, could it strengthen accusations of lack of transparency, particularly by those member countries that are not included? Also, is the role of the various governing bodies (e.g., the Executive Board) in this style of operation diminished to the advantage/disadvantage of the institution and membership? Clearly, the informal governance practices leave much of the Fund's membership out of the picture and, therefore, there is an urgent need to improve on this main strength and strongest feature of the Fund governance.

The IMFC and the Development committee

We are open to further discussion of a modus operandi of the IMFC and/or an eventual ministerial level council. Nonetheless, it is not clear to us at this stage whether the activation of the Ministerial council would be more effective. Perhaps, it would be more efficient to enhance the responsibilities of the IMFC to make it less advisory and more directional vis-à-vis the Executive Board and, in turn, Management. Further examination is required on the advantages and possible shortcomings of these two alternatives. In any option, a high degree of consensus, including through the use of special majorities, would enhance voice and increase the institution's legitimacy. Such an approach could also be applied to the decision making process of the Executive Board.

On the Development Committee, we agree with the IEO that the Board of Governors should further clarify its mandate and responsibilities. However, while its jurisdiction should focus on the work of the World Bank as observed by the IEO report, we believe that the synergy and different perspective from the Development Committee have been beneficial to the activities of the Fund, and this should continue. In this perspective, participation of the IMFC Chair and the Fund Managing Director in the Development Committee's deliberations should continue as should be the case for the Development Committee's Chair and the President of the World Bank with regard to their participation in the IMFC.

The Executive Board

We agree with the IEO that some difficulties could arise for the Executive Board functions because of its participation in many day-to-day decisions, while simultaneously exercising oversight over such decisions. The way the work of the Fund's governing bodies has evolved over the last 60 years could have created a significant degree of overlap in the activities of the Executive Board with those of Management. Therefore, the starting point as we see it is whether there is general agreement that the significant degree of overlap between the role and responsibilities of the Executive Board on one hand, and those of Management on the other, has undermined (or has the potential to undermine) the effectiveness of the Board's oversight function.

An agreement on this IEO finding should lead to an in-depth examination of what is overlapping, which decisions should be shifted to Management, while the Executive Board retains the oversight role. This could lead to a better delineation of activities between the two respective Fund's governing bodies in a manner that would be consistent with the Articles of Agreements. Otherwise, examining the necessary amendments of the Articles of Agreements that would provide such delineation and, thereby, enhance the oversight functions of the Executive Board should be considered. Also, we would agree that certain key personnel of the Fund—such as the Board Secretary, Economic Counsellor, and the General Counsel and Director of Legal Department—should have accountability to both Management as well as the Executive Board (within appropriate modalities that could be developed).

Management

The IEO report points to a lack of clear accountability framework for the Fund's Management. We are unsure if the IEO members had an opportunity to appraise the "performance framework mechanism" (PFM) of October 2007 and would appreciate their comments on it. We understand, further, that the PFM dealt only with the Managing Director's contract, and not his performance. Accordingly, we would welcome comments from the IEO team on whether it would be appropriate for the PFM to be enhanced to also include performance.

We note the concerns and recommendations regarding the Code of Conduct for the Managing Director. While we could understand that for the purposes of code of conduct the Managing Director is governed by his contract—which could be more onerous—we would appreciate clarification from the Legal Department of its statement that the Managing Director is not part of staff. In any event, we believe strongly that a "cooling-off period" is essential and should, if not already, be recognized explicitly in the Managing Director's contract or as specified in the code of conduct for staff.

Currently, the Fund has the position of a Diversity Advisor located in the Human Resource Department (HRD). The Diversity Advisor, we understand, reports to the Director of HRD and, on a quarterly basis, to the Managing Director. A key challenge related to corporate governance is to ensure that the staff reflects the diversity of its membership at all levels. We strongly believe that the position of the Diversity Advisor should be upgraded to an Independent Diversity Counselor, with clear oversight responsibility on staff diversity and report directly to the Managing Director. We would welcome IEO and Management's comments on this.

We also note the concerns in the report on the absence of "whistleblower protection" and urge Management and the Ethics

Officer to expedite the procedure underway, giving due regard to the IEO's recommendation(s) in this report.

Mrs. Mañalac and Mr. Duggan submitted the following statement:

The recent Governors' resolution on quota and voice reforms marked an historic step forward in improving the legitimacy of IMF governance, establishing a dynamic process for realigning voting shares with weight in the world economy. With these discussions now behind us, the Independent Evaluation Office (IEO) Report on the Evaluation of Aspects of IMF Corporate Governance - Including the Role of the Executive Board provides a timely opportunity to take stock of the Fund's broader governance arrangements.

The conclusion of the IEO's analysis is clear - aspects of the IMF's corporate governance arrangements are in critical need of reform. The IEO report identifies shortcomings in IMF corporate governance from the perspective of efficiency, effectiveness, accountability and voice. The comparative study shows that the IMF's corporate governance has not kept pace with international best practice. And the survey results confirm widespread dissatisfaction amongst stakeholders with matters relating to the current roles and accountabilities of Management, the Executive Board and the IMFC.

In our view, the IEO report should be a catalyst for the Executive Board taking the initiative and driving a credible process of corporate governance reform. We see this Executive Board meeting as the start of this exercise, providing an opportunity to agree on the first steps of the reform process and to exchange views on overall reform objectives, drawing on the IEO's findings and analysis. The following comments are framed in this context.

Process

Achieving consensus on corporate governance reforms will require strong ownership of the process by each of the primary governance bodies, namely the IMFC (and their Deputies), the Executive Board and Management. At the same time, the Fund's governance bodies are not independent observers and nor do they have a monopoly on ideas in this area. Therefore, we should be aiming for a process that both promotes ownership by those in a position to take decisions on these matters and benefits from the views of external parties.

With this as background, we support the establishment of a temporary Working Group charged with reporting back to the Executive Board on a proposed roadmap for IMF corporate governance reform. Production of this roadmap would entail grouping, prioritizing and sequencing particular recommendations, identifying who (Governors, the Board, Management) would take them forward, and proposing consultation arrangements. As such, the temporary Working Group would be solely concerned with process, deferring consideration of the substance of the IEO's recommendations to the relevant governance bodies. The Working Group's recommendations on process should be considered by the full Board and referred, where necessary, to Governors and Management. The objective would be to generate a broad consensus on the aspects of governance which need to be strengthened and on the processes for achieving this.

In our view, it is important that the Executive Board provide a strong signal that the IEO's findings are being taken seriously and that we are taking the initiative in addressing the corporate governance challenges that have been identified. Therefore, a key outcome from this first meeting could be agreement by the Executive Board to the release of a press statement, together with the IEO report, that would: welcome the IEO report and thank them for their work; signal the commitment of the Executive Board and Management to embarking on a process of corporate governance reform, where the IEO report will be a key input; and invite external views on the issues raised by the IEO.

Objectives

In light of the process envisaged above, we believe that the primary focus at this stage should be on ensuring that there is consensus at (and ownership by) the Board on primary reform objectives, based on a shared understanding of the Fund's key corporate governance challenges. The IEO's findings provide a good starting point for discussion in this regard, from which we draw four high level priorities:

- Clarifying the roles and responsibilities of each of the IMF's governing bodies. Clear lines of accountability would support the legitimacy of decision-making, promote greater effectiveness and assist in the identification of both overlaps and gaps in corporate governance that need to be addressed.

- Providing Governors with a platform for open engagement on strategic issues. Governors should be more engaged in setting the Fund's strategic direction and providing high level oversight of the institution. The IEO suggests addressing this through activation of the Ministerial Council contemplated in the Articles of Agreement. This reflects a concern that the IMFC, as an advisory body, does not have a legal mandate within the IMF's formal governance structure. While we remain open to discussing a Ministerial Council, it's not clear to us yet that the benefits would outweigh the potential costs. In particular, we perceive a risk that activating the Ministerial Council could potentially diminish the role of the Board if the Council's decision-making authority disempowered the Board on strategic issues or led to Management being more accountable in practice to the Council than to the Board. It's also not clear to us whether the broader membership could be satisfied that members of the Ministerial Council were representing the views of the broader membership in the same way that Executive Directors are accountable to Governors in their constituency. Taken together, we perceive a risk that activating the Ministerial Council could raise questions regarding the representation and voice of those with a greater capacity to influence through the Executive Board, including smaller members. Therefore, a full analysis may conclude that improvements to the IMFC's support arrangements and meeting format aimed at increasing the opportunity for open discussion between Ministers may be preferable to changing the legal status of the forum.

- Refocusing the Executive Board on its strategic, supervisory and representational functions. The IEO report supports the longstanding view of this chair that the Executive Board should focus on setting strategic direction and overseeing the implementation of policy, while empowering Management with greater responsibility (and therefore accountability) for the Fund's day to day operations. More specifically, to effectively fulfill its responsibilities, the Board must have the capacity to (among other things) properly review and guide overall strategy, monitor implementation and organizational performance (ensuring management accountability), oversee policy to mitigate risk, review annual budgets and business plans, and set performance objectives. While progress has been made on a few of these issues and some additional 'space' has been created through the streamlining of Board processes, we see significant potential for further gains through a clearer delineation of responsibilities between the Board and Management and by making greater use of both the Committee structure and lapse-of-time provisions.

- Developing robust accountability frameworks for Management and the Executive Board. We support efforts underway to put in place a framework for holding Management accountable for its performance and are ready to engage constructively on the establishment of a robust collective accountability mechanism for the Executive Board. In our view, this should involve Governors in both setting agreed standards for what is expected of the Executive Board and a process for evaluating the Board's collective performance.

Implicit in the above comments is that the IEO raises issues that are both within the purview of Governors and where the engagement of our capitals will be necessary for reaching the necessary consensus. Taking into account interdependencies, resolution of these matters will also have flow-on implications for some of the corporate governance challenges within the competency of the Executive Board and Management, highlighting the need for careful sequencing. However, there are a number of matters raised by the IEO that the Board and Management could take forward immediately, where we agree with the list posited by Messrs Fried and Perrault in this regard, and encourage the Managing Director to make space for consideration of these issues in the Board's forward work program.

With these comments, we join other chairs in thanking the IEO for their high quality report, which we believe should form an important input to a rigorous corporate governance reform process.

Mrs. Sucharitakul and Mr. Raman submitted the following statement:

We thank the IEO for a thought-provoking set of papers, and the External Audit Committee, the Managing Director and staff for their responses and clarifications.

The unique nature of this particular IEO Report cannot be sufficiently emphasized. Unlike previous reports, it is not clear that the

Board is capable or even should be asked to discuss many of its findings or suggested remedial actions. This is mainly because many of the recommendations – especially those regarding the nature, work processes and composition of the Board, as well as the discussions on ministerial involvement in the Fund's governance – are more the province of the Governors. Our responses to the Report, therefore, are very preliminary, providing an opportunity for discussion on the way forward, rather than representing any definitive position. It may also be self-serving for the Board to decide and discuss issues relating to fundamental changes in its own nature and role.

We also note that the IEO has not assessed quota and voice-related issues, for understandable reasons. Nevertheless, we would note that a large part of the governance weaknesses in the Fund are perceived to flow from an unrepresentative governance structure, a structure that will not change dramatically after the first round of reforms are implemented. As we said in the course of discussions on quota and voice, we saw the recent quota decision only as a first step with more work needed to ensure a continuous improvement in the representation of developing countries, many of whom remain under-represented at the Fund.

For purpose of discussion, we offer our comments on each of the broad areas of recommendation on the IMFC, Board and Management below.

Roles and Responsibilities of the Main Governance Bodies

We agree that greater clarity in the roles of Management, the Board and the IMFC could be helpful, if only to enhance the quality of discussion. However, we think these issues may be more apparent than real. Certainly, the IMFC tends to focus its discussion on points that could not be resolved at the Board, which we suppose makes a case for strong ministerial involvement. The Board, as staff have pointed out, generally build on the work that staff and Management have proposed.

In the case of greater ministerial involvement, we are not entirely sure how the IEO's proposal varies from the current practice. Certainly, they do not envision more frequent meetings, nor of changes to the IMFC's composition – in the event the Council were set up. As best as we can see, the main thrust seems to be for more systematic discussions of the Board's role as a whole, and assessment on whether it has been able to effectively carry out the business of the Fund. We would appreciate a view on exactly how such mechanisms could be put in place, and whether the Articles of Agreement allow for oversight of that nature.

Detailed Proposals on the Board

Role and Responsibilities of the Board

There seems to be some tension seen between the roles of the Board as an executive body and as a supervisory one. As we noted earlier, where greater clarity is possible, we agree that it would be welcome, though we think the Board has been relatively more focused on supervising Management, rather than being an executive body in the fullest sense of that term. Still, this is an issue that possibly deserves consideration by Governors. However, we would caution that too rigid a demarcation of “supervisory” and “executive” brings its own set of risks. The practical policy experience of many Directors is an asset that the Fund has benefited from in the past. By bringing the full range of their professional and academic experience, Directors who have participated in policy issues by working with staff beyond the confines of Board meetings have helped the Fund remain a dynamic institution.

Further, the Board has pushed for improving program design, which may contribute to enhancing effectiveness even further, though we acknowledge that the process remains an on-going one. We certainly agree that overall effectiveness appears to be strongest when the Fund is in “fire-fighting” mode in dealing with potentially systemic crises. Where the Fund has been far less effective in designing smaller programs, and in its surveillance mandate, as the current turmoil shows. Given that the new business model of the Fund will be focused on the latter, it is disappointing that greater weight was not placed on surveillance, which may have led to a different conclusion.

Size and Composition of the Board

On the size of the Board, the IEO appears in two minds – the Board certainly does not seem too large compared to other organizations, but it seems to take up a lot of space. Part of this is attributable to the designation of the Board as an executive body. We are not sure that the proposals laid out will materially change the structure and nature of the Board, something we will come to when discussing the recommendations

We took note of the IEO's recommendation to abolish the distinction between appointed and elected chairs, as this might help balance constituency sizes and improve representation. From a governance perspective we agree with Mr. Moser and Mr. Weber that this distinction may be unhelpful. However, it is not clear to us how the practical improvements would occur. Further, given that of the eight single-country chairs, five are members of the G7 and one more a member of the G8, we think the influence of this most influential of the Gs would remain a major factor, whether or not Directors are appointed or elected, and even if the largest shareholders were part of multi-country constituencies.

Review of Board Involvement In the Article IV Process

We also agree that discussions can and should focus on systemic issues, and we have indicated in the past that we would appreciate greater time allocated to regional and multilateral surveillance discussions. Having said that, one does not wish to wash one's hands completely off bilateral surveillance, having just reiterated that such surveillance is at the heart of the Fund. Rather, we encourage the ongoing practical shift to speedier, more focused Board meetings on country issues, as evidenced by the drastically shorter time spent on these matters (from 1.7 hours in 1999 to one hour in 2007). In that respect, we think the use of grays has been helpful, promoting brevity though perhaps at some cost to spontaneity.

Accountability

We note that the IEO's assessment that is no mechanism to hold the Board as a collective body accountable to the Governors, and none to hold the MD accountable to the Board. In the case of the Board, it is not clear that beyond holding their own representatives to account, the Governors can hold the entire Board to account for its performance. Further, while it is clear that the Fund should be cognizant of the views expressed by stakeholders outside the Fund, we are not sure how these groups can hold the Board, as a collective body, accountable for its decisions or assessments. For instance, the Fund was not able to provide the requisite warnings in the run-up to the recent financial turmoil, nor ahead of the drastic increases in food and energy prices, in spite of work done by staff on these matters precisely because Board discussions strive to reach a consensus.

The IEO also implicitly criticizes Directors' lack of engagement with civil society organizations and legislatures in their home countries. Given the geographical distance between some Directors and their authorities, and also the legal differences – for instance, many Directors are accountable to the executive branch of their authorities and not the legislature – such concerns may be overblown. Also, from a practical perspective, Directors who represent large constituencies cannot devote as much time as single country chairs in interfacing with their constituents, though technology certainly has helped. We also worry that the Fund's new restrictive budget is likely to hinder face-to-face meetings between Directors and their Governors

On the issue of job descriptions for Directors, it is not clear that the Board could write job descriptions for its members. Further, it is not even clear that other Governors have the legal right to use such a description in assessing whether a Director who has been elected to represent members other than themselves should take his or her place at the Board. Election to the Board is as much an issue of representation as of providing executive and supervisory oversight, a right the Governors cannot delegate easily. We also saw little evidence that Directors are unsure of the roles they are meant to play at the Board, though we agree that a strengthened induction process for Directors and their staff would be helpful.

We see merit in the idea of extending Directors' terms to three years, from the present two, though given that the median length of service on the Board for Directors is 39 months (including time spent serving as Alternates), we are not sure if any practical benefit would flow from this suggestion.

We appreciate the suggestion for self-evaluation. Certainly, we would like to encourage greater accountability but we wonder how practical this idea might be. Most authorities may be able to answer on the effectiveness of the Fund (including the Board) as a whole, and of their own Directors, but not more. Even in the event they could discuss the performance of other Directors, it is not clear they can or would be inclined to do so. We would not consider this to be a high priority, given that either the desire for re-election or continuing their careers with their home authorities provides an incentive for Directors to discharge their duties effectively. On the mater of evaluations for staff in the EDs' offices, some of our authorities already request such reviews for their representatives posted to our office, and we can see the merit in making this a general practice.

Board Committees

We do think there is scope for greater consensus building at the Board Committee level, and would encourage Committee chairs to pursue this to the extent possible. However, we are not sure that all Committees could be chaired only by EDs, especially when some of the Committees in question primarily discuss administrative issues of the Fund, where Management input would be invaluable. Nevertheless, we think a systematic examination of where greater involvement by the EDs could be helpful has merit.

Disclosure and Transparency Including Summing Ups

We agree some clarity on summing ups would be helpful, though we did appreciate the Secretary's clarification that the "code words" used helped give some flexibility in building consensus. Still, given that it takes a year to be "initiated", to use Mr. Torres and Mr. Pereyra's term, we would urge greater clarity in their use to speed up the settling in process for new Directors and their staff. Finally, we note the still-restrictive nature of the Fund's embargo policy and agree a thorough review of the policy may be in order.

Proposals on Management

We found the detailed suggestions for improving Management oversight useful, and note the work already in the pipeline in that regard. We can certainly agree that an improved selection process for the MD ought to be in place, as the current system of decisions by capitals on a political basis does not go far in improving the legitimacy of the Fund. We can see merit in the proposed selection process for DMDs, especially since they are part of the MD's team. Having said that, any candidate considered for the post of the Managing Director will most likely have worked with a large and diverse group of people, and is likely to be able to do so at the Fund. If anything, we would prefer there be attempts to institute checks and balances within the Management team, given their central functions as the Chair and

Acting Chairs of the Board. This would suggest that the MD should purposefully aim for diversity, not just in terms of regions and expertise, but also by temperament so as to cultivate a wide possible range of views. Finally, we think the concern that the delineation of work among the DMDs, especially on country issues, as being ad hoc and confusing to senior staff to be less convincing for two reasons. First, the Management team is very compact, and it certainly should not be impossible for these four people to come to some sort of consistent position on like-situated countries. Second, the area department heads have a significant and important role to play in terms of maintaining internal consistency in the analysis their teams provide, even ahead of country discussions reaching the Management team.

We agree that the Board should develop and implement an accountability framework for management, and look forward to discussing the work done so far. We also agree that the Board ought to discuss the selection of staff who have a role to play in advising the Board as one of the key functions, such as the Fund's Legal Counsel. On the question of constituting a Board Audit Committee in place of the current EAC, we are willing to keep an open mind on it. Having said that, we would welcome some greater thought put into the practical aspects of such a change, including in terms of risks, costs and benefits.

The Process in Dealing with the IEO Report

The key factor that will determine the utility of the Report is not necessarily its findings or recommendations, as thought provoking as they are, but how the follow-up work program should proceed. We certainly find many of the views held by a number of Directors useful guides in how to move forward. We agree that the main factors to be considered include communication, interaction with the IMFC and ultimately the Governors, and follow-up work that encompasses views from stakeholders to develop a holistic response.

From a practical perspective, it would be helpful to discuss the recommendations contained in this Report in the context of what can be done by the Fund, and what needs the consideration of our authorities. The further advantage of this practical bifurcation is that it gives us a useful way of dealing with additional comments and suggestions that the publication of the Report is sure to provoke, and in responding to the MD's proposals to launch initiatives in the area of governance. Of course, one imagines that not all suggestions will be easily categorized in group or another. However, being able to answer questions that allow a proper demarcation of responsibilities allows the Board's discussions to be more focused.

Therefore, we support Mr. Fried and Mr. Perrault's suggestion that an informal Board working group be set up to consider the purely practical matter of areas that the Board ought to take responsibility for and those that need to be elevated to the IMFC Deputies, the IMFC and ultimately, the Governors. As a first step, the focus of the working group's discussions ought to be the IEO Report, but eventually it could expand to help us deal with suggestions from other stakeholders more effectively. One could even make a case that suggestions as to the competent bodies for each and any of the recommendations could also be tentatively identified by this working group, though the final decision on the program would have to be endorsed by the Board.

We think that communication will be a key issue. Certainly, we are not in favor of unnecessarily holding off the publication of the Report and our reactions to it. Further, our discussion agenda for the day is already in the public domain and therefore, is bound to provoke interest. Rather, we are in favor of a communication strategy based on timely release of the Report and supporting documents – including the response of the EAC, staff and the MD – and a summary record of the discussions. With regard to the last, we are not sure a standard summing up and PIN is necessarily the best way forward – especially since a key criticism contained in the Report is the ambiguity in the Fund's language. Rather, we think that a PIN could be a short one that notes the ongoing nature of the discussions, and the need to canvass further inputs from a broader audience, including all stakeholders, and puts emphasis on the commitment to addressing these issues, preferably in a time-bound manner.

Mr. Kiekens and Mr. Rottier submitted the following statement:

We thank the IEO for its report that touches upon a wide range of IMF governance issues.

The IMF has a unique governance model. It is fair to conclude that the Fund's governance is relatively effective and efficient, particularly in comparison with other public international institutions. The IEO recommends that the roles and responsibilities of the various governance bodies be clarified to minimize overlap and address possible gaps. Doing so should enhance the Fund's effectiveness, accountability and legitimacy.

The IEO proposes that a ministerial Council would take decisions on strategic goals for the Fund and oversee the Board of Directors. At the same time, the Executive Board (which would remain residential), would see its executive mandate become less comprehensive, allowing it to focus more on the formulation of strategy and its oversight of Management. Management, in turn, would receive broader executive responsibility. Regrettably, the IEO does not consider in detail other governance models. The proposals aim at strengthening political legitimacy for strategic decisions but unfortunately they reduce legitimacy in other sensitive areas. The proposals also aim at reducing the overlap between the Executive Board and Management but, at the same time, create an overlap between the Council and the Executive Board.

IMFC - Council

The proposal to establish a Council to replace the IMFC is not a new one and has been considered in the past on several occasions. Before endorsing this IEO recommendation, more careful consideration is needed. A good working Council could enhance the formal involvement of Ministers and Governors and thereby strengthen political legitimacy of the Institution. If the Board of Governors delegates to the Council authority to exercise any of its powers, it should establish a clear delineation between the competences of the Council and the Board of Directors.

The selection process for the Chair of the IMFC (or of the Council) should genuinely include all members. This position should have a maximum term of three to five years. All members should be involved in the agenda setting of the IMFC (or Council) meetings. Voting should be avoided and consensus pursued, as is the current practice in the Board.

The IEO report observes that the cost of the IMFC meetings is not out of line, because they coincide with complementary gatherings. However, this is not the case for the IMFC deputies meetings. Deputies meetings should be organized sparingly, when there is a clear demonstration of value added that justifies the cost.

The proposal to restrict the mandate of the Development Committee to issues related to the World Bank should be carefully examined.

Executive Board

We agree that the Board could strengthen its important oversight role and focus even more on the design of the Fund's strategy. However, if the Council is established, delineation between the competences of the Council and the Board would be critical. Under this set-up, in day-to-day practice, the Executive Board should continue to play an essential preparatory and facilitating role in the decision-making of the Council.

The Executive Board should maintain important executive power, as provided in the Articles of Agreement. Its functioning could become more efficient by delegating preparatory work to committees, and by a common sense interpretation of the delineation between conducting the general business of the Fund, which is the mandate of the Board, and the conduct of the "ordinary" business of the Fund, which is the mandate of the Managing Director. It is essential that formal decision-making power on topics that are not daily or ordinary business remains with a residential Board. This is necessary in order not to jeopardize the ownership of decisions by the member countries of the Fund.

We should strive for fewer and more efficient Board meetings. The Dean has already announced that he would discuss this with Directors. However, we do not believe that concentrating all meetings during a single week in the month, as is suggested by the IEO, would allow Directors to have more impact during Board meetings. On the contrary, experience shows that during periods of excessive concentration of meetings, the quality of Directors' contributions tend to decline.

We do not support a differentiation in the treatment of Article IV consultations by having management-only consultations for less important countries versus regular consultations with Board involvement for systemically important countries. This is contrary to the principal of equal treatment of members.

We are not convinced that electing all Executive Directors would encourage large countries to invite smaller countries in their constituency. Three countries that do not appoint an Executive Director now prefer not to invite other countries in their constituency. Amending the Articles of Agreement solely for this insignificant change does not seem justified.

A highly professional competent staff in OED offices is critical for the quality of the Board's work. Nonetheless, the selection of staff in Executive Directors' offices should remain at the discretion of the Executive Director and country authorities. Lengthening the term of service of Executive Directors would enhance the effectiveness and efficiency of the Board.

There is a code of conduct on the ethical behavior of Executive Directors. Directors must comply with this code. Compliance is enforced by the Board on the recommendation of the Executive Board Ethics Committee. However, suspending or dismissing an Executive Director is the competence of the authorities who have appointed or elected the Director.

The independence of the General Counsel in providing legal advice to the Board, and of the Secretary in ensuring the integrity of the decision-making process, are critical components of the Fund's governance. The same holds for the independence of the economic counsellor, and of the Directors of the Policy Development and Review Department, and of the Internal Audit Office. A formal role for the Board in the selection of these five Directors would be useful.

Executive Board committees could technically help prepare decisions, particularly on issues that have less policy impact. However, as noted by the staff, the Board should remain the decision-making body with committees having an advisory role. More lapse-of-time Board decisions could be considered. We agree with the proposal that all Board committees should be chaired by an Executive Director. However, we believe that involvement of management and every Executive Director is essential for the budget preparation. Thus, we favor abolishing the Budget Committee. We believe that the internal audit office can assist the Board in fulfilling its oversight duties. We remain open-minded on the desirability of an Audit Committee of the Board.

The procedures of Board meetings and summing-ups, are well documented in a Compendium of Executive Board Matters which is available to all Executive Directors, their personnel, the staff of the Fund and the authorities in member countries. We should consider which part of this compendium should be made public, in order to promote correct understandings of Executive Board summing-ups included in Public Information Notices.

We can consider shortening the length of time before Board minutes are made public. However, the proposed two-year period seems too short.

Management

As noted in the report, work is underway on an accountability framework for Management. We support the introduction of performance criteria and a preliminary confidential assessment by a committee of Directors of Management's conduct of the ordinary business.

The Board has already agreed, and publicly confirmed, that candidates of all nationalities are eligible for the position of Managing Director, and that candidates' qualifications are essential. We note that the IMF is one of the few international institutions where more than one candidate was interviewed by the Board. Before the last selection, a candidate profile was published on the internet, as were statements by the candidates.

The selection process for the Deputy Managing Directors should be broadly similar to that of the Managing Director. However, in the present governance structure, the right to nominate the Deputy Managing Director belongs to the Managing Director. Under the current rules and practices, appointments of DMDs require the consent of the Executive Board.

A code of conduct for the Managing Director is agreed upon in his contract with the Fund. Assessing compliance with the agreed code of conduct is the duty of the Board.

The Way Forward

The IEO report is a helpful but insufficient framework for deciding important changes in the governance structure of the Fund. Many of the IEO proposals have already been considered in the past. The Board of Governors, the IMFC, the Executive Board, and Management, with the assistance of the Fund staff and outside experts, need to cooperate constructively to find a broad consensus on how to improve the governance of the Fund in all its dimensions.

Ms. Lundsager and Mr. Kaplan submitted the following statement:

We welcome a serious critique of IMF governance, including in particular the role of the Board. We agree that there are major shortcomings in the way the Board operates, and we believe it would be useful for the Governors to review what they wish their Directors, and the Board as a whole, to accomplish on their behalf at the Fund. We urge prompt publication of all the documents.

The Council

The informal nature of the IMFC does not detract from its political legitimacy and provides an opportunity for Governors to hear concerns from all parts of the globe. Also, the evolution of Ministers' informal groupings in such fora as the G-20 has been supportive of the Fund, and has helped facilitate a more effective conduct of the international monetary system.

We noted IEO's finding that many Governors see the greatest utility of the IMFC meetings as the opportunity for informal consultations with their peers. The formal IMFC session tends not to attract the same degree of Ministerial attention and participation. As an intellectual matter, we see the IEO's argument that a Council could increase members' ownership of the IMF. As a practical matter, however, we presume that Governors will devolve their formal responsibilities to their senior officials, given Governors' critical responsibilities in their home governments.

We see a tension in the IEO's simultaneous recommendations for a Council and a resident – and more strategic – Executive Board. It appears their responsibilities would overlap. We would expect that if Governors establish a Council, most discussions will be held among capitals' senior officials, and the Executive Board would evolve into a lower level body relaying information to capitals.

Board Processes

Strategic Role of the Board in Surveillance

Directors should be dismayed that a large percentage of the staff believes that the Board's value added in surveillance is modest, at best. The Managing Director's suggestion to explore streamlining Board documentation and review time following a staff mission also reflects the impression that many authorities apparently consider Board review as an afterthought to Fund surveillance.

We could support proposals to streamline our surveillance process, and have made suggestions regarding regional surveillance. We strongly agree with the IEO on the essence of its recommendation that Directors should concentrate on true priorities. In our view, this does not mean a retreat from surveillance, but a refocusing on critical issues.

We reaffirm that the Board review process is an integral element of Fund surveillance and the use of Fund resources. However, Directors' own revealed preference, judging by the infrequency with which Directors or Alternates attend the Board, is that many Article IV reviews do not warrant their direct attention. Directors recently explored, but rejected, the option of surveying some countries on a multi-year cycle. The Board needs to find a way to distill priorities from the deluge of paper that crosses our desks, and to galvanize Directors' participation in Board meetings. We could consider a rethink of the role and function of the Secretary's Department, or experiment with some form of sub-committee.

Colleagues will recall that we have made a proposal to review how the Board performs its surveillance function. The Dean has already agreed to instigate work, which the Managing Director has supported. We look forward to this task with enthusiasm.

Accountability for Board and Management

We agree on the need to clarify ethical guidelines for the Board and management. We suggest installing a requirement for all members of the Board and management to receive an annual briefing, and we should revisit whether financial disclosure remains best practice. The work on whistle blowing protections is long overdue. The Board needs to make clear its own ethical responsibilities.

Committees, in Particular the Audit Committee

We appreciate the comments of the Legal Department on Executive Board Committees. For our part, we are not opposed to committee work, but do not consider it a panacea, given that committee work can be very time consuming and ultimately, only the Executive Board takes decision. We are nonetheless willing to consider options, depending on how we reform our surveillance work.

The Board has debated extensively on the question of whether to constitute an Audit Committee. Our view remains that there is an inherent tension between Directors' decision making responsibilities and their ability to function simultaneously as a properly constituted audit committee. We also note that Directors do not typically have the formal expertise to exercise informed technical oversight over audit operations.

However, Directors' experience with the alternatives to an audit committee have not been altogether satisfactory. We are continually concerned that information, such as with reference to internal audit, is not brought to the Board's attention in a timely and transparent manner. We also have concerns that risk management issues raised in Board meetings may not receive sufficient follow up from the staff. At this juncture, we are willing to consider forming a Board audit committee, but see the need for careful consideration on how Directors can retain the advice and counsel of the EAC.

We support the EAC's comments on management's staffing decisions for critical finance positions.

Summings Up

We see scope for improvement in how Directors' views are captured for discussions of Article IV and the use of Fund resources, which frequently reiterate the staff report more than capture Directors' discussion.

Directors' Terms

We would be willing to explore an extension of Directors' terms from two years to three, and a limit on the number of times a Director can be re-elected or re-appointed. Given the steep learning curve of internal Fund vocabulary, procedures, and precedents, there is utility in Directors having more time at peak performance before rotation.

Development Committee

We could agree to clarify the mandate of the Development Committee to focus explicitly on World Bank issues. The formal role of the IMF in that body contributes to continuing confusion over the core mandate of the Fund. Incidentally, the formal mandate of the Council to "review developments in the transfer of real resources to developing countries" may create problems of overlap with the Development Committee that would need to be reconciled, were a Council to be created.

Board Size

Colleagues will recall that Secretary Paulson's statement to the 2008 Spring IMFC called "…on other IMF members to join us in supporting a smaller, more strategically focused Board. The Board is simply too costly, and a smaller and more streamlined Board could focus more strategically on the management of the institution and less on the voluminous crush of papers. In this regard, we favor reducing the number of Board chairs from 24 seats presently to 22 seats by 2010 and to 20 seats by 2012. To facilitate consolidation of seats, we also favor eliminating the current practice of permitting the five largest shareholders to appoint their own Directors, and instead believe all Board chairs should be elected." My authorities are also on public record that, as the Board size is reduced, the number of developing and emerging market country chairs should be preserved.

The Board addresses most issues with an emphasis on Directors' arguments, rather than their voting power. We therefore believe that a smaller Board will enhance the reform of quota shares, and in this regard we welcome the ongoing European discussion regarding representation in international financial institutions.

Members ultimately will decide how they should organize themselves. The Fund ought not to have unlimited patience, however, and we believe it would be wise to take steps now to allow the largest members to join constituencies. Our reading of the Articles is that election procedures may need to be revisited in order to facilitate consolidation. The current limits on the maximum size of a constituency could, for example, prohibit larger members from sharing a seat. We invite the staff to come back to the Board with a paper on preliminary considerations for how consolidation could be accommodated by the Fund.

Mr. Claveranne submitted the following statement:

We thank the IEO's mission for its report on aspects of Fund corporate governance, including the role of the executive board. We see this report as a valuable and thought-provoking contribution to the debate on the Fund's governance.

We believe that the Fund's governance structure should be assessed against the background of the missions entrusted by the international community to the institution. It would be interesting to clarify whether the present structure helps (or not) the IMF to fulfill its mandate. Going forward, if necessary, this could imply further work on whether the formal mandate needs to evolve to encompass challenges more relevant for today's global economy, e.g. capital account liberalization and financial stability. This, in our view, should be the overarching framework to address the trade-offs and tensions between criteria used to evaluate governance in this institution.

We read the evaluation's main conclusions as aiming at reinforcing the Fund's efficiency by (i) clarifying the roles of its governing bodies, (ii) fostering increased engagement of political masters in steering the Fund, (iii) focusing the Board on an oversight function, and (iv) strengthening management's accountability. We agree with the report's starting point that legitimacy and relevance go beyond quota issues.

Many recommendations are balanced and sensible, in principle. The evaluation's call for clarifying the roles of governance bodies deserves consideration. Where they are ascertained, gaps and overlaps across bodies need to be minimized to the maximum extent possible. In this respect, we support strengthening the role of the Board's committees. They could serve two practical purposes, i.e.: to limit the risk of the Board micro-managing the institution and to ensure a more active and cost-effective engagement of the Board in its oversight functions. More specifically, we agree that the existing framework for overseeing financial policies, risk management, and audit issues is not adequate. That said, we need to reflect further on the trade-offs of increasing the role of committees in the Fund's core missions. For instance, while we share the view that too many article IV discussions have become formal and that, in most instances, add little value to staff's assessment, we would guard against delegating the conclusion of such consultations to management. The forum provided by the Board with members having experience in policy making is useful in adjusting the assessment and/or recommendations put forward by staff. Also, the Board needs to remain involved in the Fund's 'operations', not least to be able to identify policy issues out of practical cases. The same is even more relevant for program countries. Also, reflecting further on how to clarify the accountability framework for management would be useful. We agree that selection processes for the managing director and its deputies should be made transparent and competitive, provided the same would apply to the World Bank. As stated on previous occasions, we value the resident board and therefore concur with the IEO's recommendations on this matter. We do not see scope for changing this necessary feature of the institutional set up of the Fund.

That said, addressing the four key issues listed above will require thorough discussions. We are not sure that their discussion in the report is extensive enough for the Board to come to conclusions on many aspects at this early stage. For instance, the report suggests refocusing the Board towards an oversight role and away from a 'merely' executive one. Yet, the report does not provide a working definition of these two notions applied to the Fund's Executive Board. While we appreciate the Legal Department's comments on this issue, we would appreciate a more thorough legal opinion from the Legal Counsel detailing what, according to the Articles, is to be considered executive vs. oversight. Also, the conclusions from the report rest considerably on surveys and interviews. While we find this approach useful, it would have been more valuable if the findings on the strengths and the weaknesses of the Fund's governance structure were benchmarked against some standards. We recognize that the evaluation indeed used three standards to do so. Still, it is difficult to get, from the report, the 'intensity' of governance problems compared to these benchmarks. It is our understanding that the evaluation was concerned primarily with governance practices in the Fund, and less so with the governance framework arising out of the Articles of Agreement. We would appreciate if IEO's staff could confirm this. Going forward, we believe that assessing discrepancies between hard law, soft law, and practice will be key. We note staff's call for all executive directors to be elected, thereby discontinuing the appointment of five of them. We would appreciate it if the Legal Counsel could elaborate on the implications of such a move.

Other dimensions, not dealt with in the report, could be part of the broader agenda on corporate governance. The evaluation does not investigate in detail the impact of voting rules, including on special majorities, on corporate governance. Yet, the existing framework obviously has a bearing, both positive and negative, on all four dimensions used by the IEO to gauge corporate governance in the Fund. Further work is needed in this area.

It is unlikely that the Board can arrive at clear conclusions on all recommendations at once and on its own. Given the breadth of the topics the evaluation addresses, and given the range of its recommendations which go from administrative solutions to highly political choices, this report stands out of the regular production by the IEO. As a consequence, further thinking and interactions will be needed to balance the judgment of the IEO evaluation, assess its recommendations, and come to a final view on the way forward.
Mr. Guzmán submitted the following statement:

We thank the IEO for the work carried out. We think it is a valid starting point for a debate aimed at strengthening the governance arrangements of the IMF, a debate that will certainly require time to mature into practical conclusions. At the outset, it is fair to highlight three general judgments that will somehow emerge in different sections of our statement.

- First, it is worth recalling that our authorities have not had time to discuss the particulars of this Report among themselves. In this regard, it is relevant to point out that the most substantial changes suggested to IMF governance belong in the domain of Governors' decision. At this stage, the position of this constituency is to be interpreted as a preliminary assessment and does not necessarily represent our Governors' final views.

- Second, although some facts are presented with a degree of conviction that does not cope well with the evidence emanating from the surveys, we broadly share the diagnosis of the Report. The flaws detected in the Governance structure and processes of the IMF have been studied for some time. Indeed, several have been recurrently addressed by the Board in a continued drive to reform governance in most of these areas over the past years.

- Our main proposition, however, is that the Report shies away from extracting the full set of consequences of its diagnosis. In that sense, we interpret the recommendations only as a possible set of solutions—one that will need deliberation at the Governor level, and will probably also need to be enriched by the input from other sources.

In our view, the Report addresses three main sets of problems; those stemming from the confusion of roles, those related to lack of accountability, and those that affect efficiency in carrying out the mission.

Separation of Functions

The Report rightly points at the confusion of functions between Board and Management. It suggests that the Board should be reoriented towards a more supervisory and strategic role, leaving ordinary operations to Management. On the other hand, the IMFC is said to lack legal powers to enforce its strategic thinking, is seen as hardly deliberating anything and failing to supervise the institution. We would share both broad assessments in that they are formally correct. In addressing these issues we will add certain practical considerations which we fear might make the solutions somewhat less clear-cut.

The IEO suggests we activate the Council contemplated in the Articles of Agreement. Prima facie, we hold this proposition as one that could certainly incorporate Ministerial level executive decision-making into the workings of the institution, and could more effectively supervise the institution. However, two observations come to mind:

- First, we need to reflect on the fact that a majority of our Governors and Directors have expressed in the Survey a degree of satisfaction with the accuracy and/or clarity of guidance from IMFC

Communiqués. This may lead to question if the IMFC has only a consultative nature. Do we really share the notion that IMFC communiqués do not provide strategic guidance to the institution?

- On the other hand, it is true that the IMFC is currently not playing an oversight or supervisory role vis-à-vis the IMF, the Executive Board, and Management. But then it is also true that such an important function is not explicitly contemplated in its mandate. This might in turn lead us to ask if a ministerial level body would be the best suited to hold Management accountable if there is an Executive Board that has already an oversight function. Are we not duplicating oversight instances? Is it necessary? Is it realistic to think Ministers in a formal bi- annual gathering will be prepared for holding Management and the Board accountable for "the management and adaptation of the international monetary and financial system" (Resolution 54-9 on IMFC creation)?

We are in favor of a certain degree of delegation of executive powers from the Executive Board to Management. It is apparent that there are efficiency gains to be attained by limiting micro-management and curtailing the intrusion of the Board in day-to-day operations. The combination of this recommendation with the strategic and executive role envisaged for the IMFC/Council should, however, entail a more drastic change in the number of meetings of the Board, their periodicity and their content, as well as more efficient procedures. We think the Report does not explore other alternatives and that a more thorough study is called for; for instance, this recommendation connects with the refocusing of surveillance and the treatment of Article IV Reports on non-systemic and non-vulnerable countries, but also on the need to rethink the way Committees of the Board are designed, their mandate and working rules.

We are unable to pronounce ourselves on the election and duration of the term of Directors and we see little value in the need to establish job descriptions for the position. In any case, this limitation of the capacity of Governors to appoint their representatives in a multilateral institution would need to be based on more solid grounds than the surveys presented.

Accountability Framework.

In the IEO's proposal the Board would move to a more supervisory role. We share the need to devise an accountability framework for Management and we are in record supporting the Statement of Priorities as a reasonable tool to periodically evaluate the effectiveness of the institution.

The most important and immediate change from the point of view of accountability of management would be the revision of the MD selection process, and that of the appointment of his deputies. A full opening of the positions would allow membership to believe in the agency relationship established with the MD, and would per se empower them with the right to make the MD accountable. The same principle could be used in support of the selection process for the chair of the IMFC/Council meetings (selection and term).

The design of a formal accountability framework requires careful attention in the capitals. Its implementation would in itself help the Institution become more transparent, but it would inevitably bring about a natural corollary: The need to establish the necessary mechanisms through which governments can report to their societies on the outcomes of the Fund's operation (through Parliament in certain countries). Further work on alternatives is needed also in this field.

We are in principle in favor of establishing a self-evaluation mechanism for the Board and we look forward on how to take this recommendation ahead.

Processes and Efficiency.

We think the rules and traditions governing work within the IMF should only be subject to revision once the general structure of the governance of the institution is agreed upon. As a first impression, we are sympathetic with the IEO's idea on the need to revise the functioning of committee work; the IEO suggests "commitology" could replace formal Board sessions in certain issues and this might be a reasonable way of progress. But for that role to be played by Committees the rules determining their composition, terms of reference and chairmanship need to be profoundly revised.

Finally we share the IEO's view of the 'summing ups' as sometimes illegible—and most of the times obscure—statements of agreement. However, we hold SUs as the lesser of two evils. SUs were born to speed agreement and consensus avoiding the need to reach formal decisions in all issues and with full detail. In that sense, let us not forget that SUs save a lot of debate and unnecessary voting. We are also concerned about the waste of resources involved in the process of Board debate, presently centered in the issuance of our grays. The solutions suggested by the IEO-—more focused interventions and early issuance of the gray statements—might be appropriate. But when you put them in connection with eventual changes in the functions of the Board, as well as with the refocusing exercise and the streamlining of certain tasks, other solutions might also appear reasonable. These alternative avenues should be studied in order to increase efficiency without damaging the quality of the work of the Board.

Concluding Remarks, A Way Ahead.

In concluding, we thank the IEO for an ambitious Report. We hold the Report and its recommendations as a positive input to a broader effort by the international community to enhance the legitimacy of the IMF via improvements in its governance. The quota and voice reform process has delivered results only after two years of debates and we sincerely hope that certain obvious potential improvements in our governance do not need that much time to be adopted. We foresee that this Report, together with contributions from outside the institution, might help our Governors to make adjustments to further adapt the IMF to the changing world.

Looking ahead, we would support the immediate publication of the IEO report but would like to suggest, as other Directors, that the elaboration of an implementation plan for the IEO recommendations be postponed until our Governors have reached their own conclusions on the relevant issues. As a Board, of course, we should be prepared to hold further discussions in the months ahead, hopefully with additional independent advice, to help our Governors adopt final decisions.

Mr. Nogueira Batista and Mr. Mori submitted the following statement:

We thank the Independent Evaluation Office (IEO) for the assessment on IMF Corporate Governance. We also thank the staff for the very helpful buff statement.

The Survey conducted by the IEO brings us an interesting set of results. However, it is somewhat disappointing to see the low participation of the IMF senior staff in the exercise, standing at 44 percent, the lowest among the three groups surveyed.

Two outcomes of the Survey have to be underscored as they are reason for serious concern. First, a majority of low-income countries are concerned with the consequences of criticizing the views of staff or Management in IMF policy debates. Second, the Board is considered particularly weak on financial sector issues. If this is true, the Board would not be in a position to assess the adequacy and quality of staff's recommendations provided during the crises in emerging market countries, as almost all cases are associated with financial sector problems. However, the ongoing crisis in the mature economies has shown that lack of knowledge about financial issues seems to be a more generalized problem.

Our comments on the IEO's four general recommendations are the following:

Recommendation 1

The IEO recommends a better delineation of responsibilities between the Board and Management. For this purpose, we are of the view that there is no need to shift the balance of the Board's activities towards a more supervisory role. The IEO indicates some instances where overlaps and gaps existing in the roles of the Board and Management can be improved under the current structure. There would be overlaps regarding the Board's role in "direction and control" and an intrusive micromanagement towards responsibilities of Management. The pragmatic approach followed so far remains adequate instead of a rigid delineation of responsibilities. Also, the IEO recommendation seems to narrow the responsibility of the Board. We do not agree, hence, with a more supervisory role for the Executive Board.

More has to be done, however, in filling the gaps indicated by IEO. The Board could play a more active role in strategy formulation and it has to be more effective in monitoring policy implementation. We should not be satisfied with the current situation where some important strategic ideas come not from the Board or Management but from outside the Fund, usually from large shareholders.

Recommendation 2

The IEO recommends further thoughts in introducing effectively the Council, replacing the IMFC. We do not see a major advantage in relation to the current informal—and flexible—decision-making process of the IMFC. The IEO notes that ministerial involvement in the Fund's business is weak, except in special circumstances. Yet, it seems an illusion that the ministers as members of the Council would be more engaged in the business of the Fund. Governors are usually involved in several issues and concerns in the domestic sphere. Introducing the Council would not change this basic reality and make their participation more effective than in the current IMFC.

As a result, member countries with a more organized bureaucracy— the advanced economies—tend to have advantages because they have already divisions or departments dedicated exclusively to IMF issues. It would be difficult for developing countries, or even emerging market countries, to set such a structure, because of a lack of both financial and human resources. Therefore, we do not see advantages in the recommendation to activate the ministerial level Council.

Recommendation 3

The IEO seems to be a strong advocate of transforming the Board into a more supervisory body, but their arguments are not convincing. They argue that the need for an executive board by the time of the creation of the IMF was associated with the par value system of exchange rate arrangements. Such a link between an executive board and the par value system is not clear. The IEO also mentions the limited communication between Directors and the authorities at that time. Yet, even with the advances in the communication technology, contacting the authorities is not trivial in view of particularities involved in the issues discussed by the Board and many member countries do not count on specialized bureaucracies to discuss the issues on time.

A supervisory role for the Board as recommended would be related to fiduciary oversights such as financial management, risk management, and preventing misconduct and conflicts of interest, and an oversight of human resource and administrative policies. These activities seem to be of lesser relevance for the Executive Board of an organization like the IMF.

We do not agree to change the modalities of the Board's involvement in the Article IV surveillance process. Bilateral surveillance and review of Fund programs are the main responsibility of the Board and cannot be transferred to Management, staff or committees. Also the entire Board has to participate in the discussions of agenda items that require diversity of opinion within the membership, and here the dimension voice is an important element in the governance of the institution.

Committees in this sense tend to lack such a diversity of opinion because the participation would be restricted to members only. Moreover, the experience so far with committees in the Fund has not been encouraging. The meetings have become as formal as a Board meeting and sometimes longer. The scheme of committees tends to work better in issues where the focus is narrow and specialized.

Recommendation 4

We agree that a framework needs to be in place to hold Management and the Board accountable for their performance, though it is difficult to set a benchmark. We look forward to seeing the progress of the Working Group on the Framework of the Managing Director's Performance Evaluation chaired by the Dean. We also welcome the work that is being done to implement a similar framework to the Executive Directors.

On some specific recommendations:

IMFC

- We agree with the IEO recommendations that, first, the process for selecting the Chair of the IMFC should be transparent and inclusive of the full membership, giving both developed and developing countries an opportunity to lead the IMFC; and, second, a maximum term (say three years) should be set for the position of IMFC Chair.

Executive Board

- We share the view that the Board needs to improve its efficiency and effectiveness. The main concern is related to the discussions of Article IV where the Board is recognized to add little value. For this purpose, however, there seems to be a need to think of ways of strengthening the technical capacity of the Executive Directors' offices.

- We agree that it is highly desirable to have a more rational and better distributed agenda of the Board meetings. More work has to be done between the Secretary's office and the Board Committees to enhance the procedure. Unless there is a significant change in the Board activities, the proposal for the Board to meet one week a month is not viable, and, therefore, we cannot go along with it.

- We see merit in increasing the terms of service of Executive Directors from two to three years.

- We agree with the Secretary that the SUs have to reflect the views expressed by the Executive Directors and not necessarily what is said by staff. The text of summings up, however, could be improved with a more precise counting of the Directors' positions, but it would also be helpful if the grays are more explicit in expressing positions in the key issues. The code words for summings up could be made public as this would help outsiders to better interpret the views of Directors in Board meetings.

- The suggestion for grays to be circulated at least 48 hours in advance of meetings could be desirable, but in practice this seems too ambitious because the time required for their issuing depends on the internal procedure of each office. It would be, however, helpful if grays are shorter than the current practice.

- We are not convinced that there is a need to change the current transparency policy.

Management

- We are also of the view that the selection process for the Managing Director should be reformed. Candidates' qualifications and likely effectiveness should be the main criteria used in the selection, and the competition should be open to candidates of all nationalities. Also, there should be an open selection process for the FDMD and DMD positions, based on clearly specified criteria. Regional diversity should be one of elements in the selection and the position of FDMD should not be reserved for any particular nationality.

Mr. Rutayisire submitted the following statement:

We appreciate staff's reports on the aspects of IMF governance, the findings of the surveys and interviews, and the recommendations set forth to improve accountability and voice of the governance structures of the Fund while maintaining its well-recognized effectiveness and efficiency. This discussion comes at an opportune moment indeed when, following the work of quota and voice reform, enhancing the institutional structures is called for to strengthen Fund's relevance and legitimacy. We view this report as part of the ongoing process of improving Fund's governance and performance of its mandate as required by the Articles of Agreement.

In its analytical approach, the IEO report focuses on three governance structures of the Fund, namely the IMFC, the Executive Board and Management. However, reading through the report, reference is made to other governance structures of the Fund which are an integral part of the three structures and which would have deserved a more coordinated attention. For example, the oversight role of the Board mentions nothing on the internal control and risk management committee of the Board, the independent audit committee of the Board and the internal and external audit committees which are responsible before the Board and form key aspects of the Board's enforcement and control of implementation. The report also makes references to the governance codes implicit in the Articles of Agreement and the By-Laws but does not include them in an integrated analysis framework of Fund governance. As a matter of fact, some of the recommendations proposed go against the Articles of Agreement and the By-Laws, and in the proposals we do not see a recommendation that the Articles should be amended in the first instance.

In addition to these general remarks, we shall for emphasis confine our views to the recommendations made in paragraphs 64 through 86 and shall limit our comments to those paragraphs with which we have disagreements.

On the Role and Responsibilities of the Governance Bodies

The Articles of Agreement and the By-Laws define the role of the Board of Governors and that of the Executive Board in broad terms. In turn, the Board defines the role of Management in form of the contract which the Board signs with the Managing Director and which is approved by the Board of Governors. The IEO report recommends that the role of each of the above structures should go into the details of each body's functioning. Our concern is whether such a level of details could not limit the agility of each of those structures in performing its roles as required. Furthermore, we would like to know if by lack of clarity of the role of the Board and Management, the IEO report would suggest that the role of the Chairman of the Board be split from that of the Managing Director. Most governance evaluations we have seen recognize that a combination of the CEO and chairman of the Board has more merits in the enhancing Board's decision-making and effectiveness than splitting the role of CEO from that of the Board Chairman.

On Systematic Board's Involvement in Setting Goals and Overseeing Performance

In private corporations, shareholders do not engage in setting strategies and overseeing performances of corporations in which they have invested their capital. Their only concern is to see that Board and Management deliver on shareholder value. First, with the IEO report recommendation, we question ourselves why Ministers as shareholders of the Fund should be engaged in setting the objectives and overseeing performances of the Fund on the mandate they have assigned. The only exception in our view is if the Board and Management have complicity in the principle-agency problem, and the IEO report does not show that this is the case with the Fund.

On the Recommendation of a Supervisory Board Instead of an Executive Board

An executive board should be concerned on how the corporation should function and exercise control on a daily basis. Effectiveness of the Board must be reflected by the extent to which the Board significantly influences the direction of the company, sets performance objectives for management, and places limits on the discretion of management. The Board should also bear overall accountability for the performance and internal control of the company. This is how we interpret Section 3 (a) of Article 12 of the Fund's Articles of Agreement. A supervisory Board would not competently perform such requirement. We believe that the current Fund's Board, through its various committees, has been able to enhance its independence and effectiveness in exercising its roles as required by the Articles.

A major question for us is whether members of the Fund's Board receive all the information needed or receive it in time to make decisions. The IEO report correctly indicates situations—especially under crises—when Fund responses have been done outside the Board. But previous independent evaluation reports have shown that some Fund recommendations on crisis prevention, which were made under such circumstances, were at times flawed. At times, Fund's internal communication and document circulation periods have also not provided the Board with real-time information. All these, in our view, reflect operational shortfalls which can be corrected in the current set up as opposed to the necessity for a supervisory board.

On the Recommendations on IMFC and Board of Governors

We see the present structure of the Board of Governors and IMFC broadly as having served the Fund well.

On the Report's Further Recommendations on the Executive Board

The IEO report recommends that the Board should give greater emphasis and develop more effective processes to provide oversight over the implementation of agreed policies and strategies. Currently, the Board performs these functions through Board's program and policy reviews. It also exercises control over implementation through the internal control system, the Fund's risk management committee, a system of internal and external audits, as well as the audit committees of the Board, including the independent evaluation committee itself. Does the IEO view any deficiencies in such control arrangements?

Furthermore, we do not agree with the report recommendation that the Board control over Fund risks should be confined to systemic risks alone. Under the current system, Board control over Fund risks is comprehensive, covering systemic risks, risks related to use of fund resources, operational and reputational risks, etc. This should continue to be the case. The report states that Fund programs other than systemic ones should all become staff-monitored programs. This has fundamental implications. Programs not approved by the Board have not been supported by other donors, and this already implies advocating an equal treatment of certain Fund members, including the possibility of making it difficult for those members in mobilizing donor support.

The recommendations made on the structure and working of the Executive Board, including selection of Executive Directors all go against the Articles of Agreement and infringe on membership's rights which are recognized by the Articles. One key issue in corporate governance is to protect shareholders' rights, and for this reason, we cannot support IEO recommendations in the related paragraphs.

On Management and Board Accountability

We do not support the recommendation that Management and the Board should be accountable for multiple objectives whose benchmark performance targets are imprecise. This can overstretch Fund's resources and Board and Management's effectiveness. The Fund's Articles of Agreement and By-Laws provide for the Board and Management to be accountable to the Board of Governors in the form of an annual report on the state of the Fund's operations and that of the international financial system. A report of the independent committee of the Board as well as attestation of external auditors are also submitted to the Board of Governors along with Management's response. It is possible that the width and depth of disclosure in such reports need to be expanded but it cannot be ruled out that such disclosure does not constitute accountability on part of the Board and Management.

On Voice

We agree that the size of constituencies presses heavy demands on Directors 8representing multi-country constituencies at the Board. Recent reforms approved by the Board of Governors on quota and voice are steps in the right direction. We agree with the report that increases in the number of chairs can be a first-best. However, the issue of voice is also about respecting the rules of law. We have seen instances where goal posts have been shifted in the middle of the game, especially for program countries, and one may question if these practices may not prevail irrespective of the number of chairs.

Electing the Managing Director and the Chairman of the IMFC

The recent Board decision on selecting the MD, in our view, goes in right direction of good governance. Regarding the selection of the Chairman of the IMFC, we find the provisions in the By-Laws as also being satisfactory.

In Conclusion

In our view, the recommendations made by this report deserve to be pursued by a more profound review by a committee of the Board whose mandate could also be to examine other issues left out in the report, including determining the implications for the Articles of Agreement and the existing By-Laws. As the issue of governance has wider implications on the membership, adequate consultations with governors would have to be allowed for.

The Chairman made the following statement:

We begin today with the IEO report on the "Evaluation of Aspects of IMF Corporate Governance—Including the Role of the Executive Board." Directors will have also seen the background documents, my own statement, and the staff's response. We have present three IEO consultants: Ms. Pedraglio, Ms. Abrams, and Mr. Martinez-Diaz. I will begin with a few remarks.

At the outset, I would like to seek Directors' views on the request by the Fund's Ethics Officer to attend this morning's Board session. As Directors know, one of the issues covered by the IEO report relates to ethics and the Code of Conduct to apply to management and to the Executive Board. As the Fund's Ethics Officer provides valuable advice and insight on the implementation of our ethics standards, it would be important for her to hear today's discussion. I have consulted with the Dean and he sees no objection to her attendance. May I take it that the Board agrees that the Ethics Officer can attend this morning's Board session? Thank you.

I would like to make two comments, one on substance and the other on process. On substance, it is clear to everybody that the IEO report offers a lot of food for thought on the different topics which are covered, as reflected by a very interesting set of grays. Obviously, the report can be approved in a variety of ways. Different kinds of priorities can be attached to the various issues, so probably Directors would agree that we are at the beginning of a process. We are now beyond the quota and voice reform and are opening a different, but related topic on governance and legitimacy. This discussion and the decision which can be made will involve not only the Board and management, but the membership, and maybe a broader group of stakeholders that have some interest in the IMF.

The first point I would like to make is that I fully agree with the statement of the Dean that we should aim to ensure that management and the Board work in perfect harmony on the question of trying to reach common objectives. Probably it will take some time to think about it, and we will have to organize this work.

That leads me to a remark on the process. The standard process for an IEO report is to have a discussion where the Board gives its views on the proposals and the recommendations by the IEO. When the Board has said what it is prepared to accept, then management comes back with an implementation plan. Probably we need to deviate somewhat from this standard process for a couple of reasons: first, because we are at the beginning of a process, and second, because many more views than those expressed here have to be heard, including the membership or the capitals, and maybe part of civil society. The report addresses a huge question, and because of the many interrelations in the proposals, it is not that easy to define the way to implement it.

I suggest having a full and frank discussion on the IEO report and, as a number of Directors have proposed, not having a summing up because we are not at the end of the process. In addition, the traditional implementation plan by management to the Board should also be skipped in this instance, as we are trying to begin the discussion. We will determine a little later on in the process how to implement the recommendations.

We are opening a very important and interesting discussion, which will take a lot of time and will involve many long-term views on how the IMF should change and adapt in the coming decades. Opening this big discussion is much easier because we closed the previous discussion on the quota and voice. Management is looking forward to working cooperatively with the Working Group of Executive Directors under the chairmanship of Mr. Moser so that we can together see how we can move forward.

Mr. von Stenglin made the following statement:

I have not much to add to my written statement. I would like to thank IEO for the report, and the Chairman, as well as the staff, for the comments made on the report. Like the Chairman, I see the report as one of probably a large number of voices, including the group of wise men that the Chairman has asked to advise management, that will enrich our process of discussing in a collaborative spirit the Fund's governance reforms.

There are a wide range of potentially contentious issues which require careful consideration. To this end, I welcome the Chairman's proposal on how to proceed and, in particular, to not have a formal summing up. I support Mr. Fried's suggestions of establishing an informal Working Group of Board members.

Like most of my colleagues, I have only touched on a selected number of IEO recommendations in my gray on a preliminary basis. Similarly, it is my understanding that the IEO recommendations that were not addressed in individual grays are not taken to be supported by those chairs.

Finally, I would like to underline that this chair has repeatedly urged the Board to adjust its working procedures for the restructuring exercise for Directors' offices. Therefore, I strongly support Ms. Lundsager's call for streamlining the surveillance process, but not only the surveillance process.

Mr. Kihara made the following statement:

In addition to the points we raised in our gray, we would like to submit the following two comments. First, like Ms. Mañalac, Mr. Duggan, and other Directors, we support the establishment of a temporary Working Group charged with reporting back to the Board on a roadmap to follow-up this IEO report. The Board needs to play a leading role during this follow-up process, and a Working Group will facilitate the initiation of subsequent discussions. As Mr. von Stenglin mentioned, we also support strongly to pursue how we can modernize the institution and move to a more efficient way of operation, particularly in terms of Article IV consultation discussions by the Board.

Second, with regard to the Development Committee, we see the benefits to clarify the mandate and responsibilities of this Committee. Restricting its jurisdiction to the work of the World Bank may not have a significant impact to both institutions' operations. Nonetheless, the presence of the IMFC Chairman and the Managing Director is necessary to secure an effective exchange of views between the two institutions.

Mr. Fried made the following statement:

Let me begin by reiterating our gratitude to Mr. Bernes and the IEO for what is a remarkable set of products. The report and the richness of the background papers were a tremendous education for those of us who have not lived and breathed this institution for our careers. Having that sense of history and context is fundamentally important going forward. I have a couple of observations in light of comments in the other grays.

We certainly support and agree with the clarifications provided by Mr. Hagan and the Legal staff regarding the conflict of interest and the ethical question that was highlighted at the outset. Having participated in the Committee concerned with these issues, I am more than satisfied that the terms of employment fully address the potential conflicts of interest on the part of the Managing Director. It would be very awkward to try and apply staff criteria to that position.

Second, on the selection process for the Managing Director, I am very proud to have been here at a time when the Board formally reformed that process. We have a fully transparent, wholly merit-based nomination and application process. My reading of what the IEO report is struggling to grapple with has nothing to do with the process as we have set out, because it is clean, merit-based, and fully transparent. I do not think there is anything more we can do as a Board in the selection process without addressing the vote and voice procedures. To that extent, I found the IEO recommendations somewhat overstated, not having taken full account of how significant the Board decision was in the past couple of years.

I have two questions. I agree with how the Chair intends to wrap up this first meeting but there was no mention of the communications dimension. I assume that all of the report and background studies would be made available to the public. I do not know if it is envisaged that the reports would be covered by a kind of short statement. In my view, the safest and most accurate way to proceed would be as the Chair has suggested in this meeting; namely, that we have begun our engagement in addressing these issues in the spirit of the collaboration that the Dean has called for between management and the Board.

Finally, while the report and many of the grays formally identify the three legs of the stool as being management, with management representing the staff, the Board, and the Governors, some of the grays highlighted another interesting dimension. These grays have acknowledged that there are broader stakeholder communities outside in which Ministers—all of whom have extensive domestic responsibilities—quite often act through their Deputies. Thus, in terms of our engagement, as Mr. Moser begins his work in constructing a roadmap, I would hope that we consider the kind of consultations that might be useful between the Board and management on the one hand, and the senior officials representing their Minister on the other. We are likely to have more ongoing engagement at that level than at the political level.

Mr. Pereira made the following statement:

I have two brief remarks. First, after reading Directors' statements, we support the pragmatic approach proposed by Mr. Fried and Mr. Kishore in terms of grouping the possible reforms into two categories. One group of reforms would be up to the Board to decide and could be implemented in the very short term. The second group of reforms demand more deliberation among the membership. We could ensure that this is a collaborative process that we all know is necessary in order to improve the legitimacy of the elements that are part of the corporate governance reform. It is important not to lose the momentum of reform. That is why we endorse the proposal and support the setting up of the informal Working Group at the Board to work on these issues.

My second remark has to do with the double majority. We see merit in further exploring the possible benefit of instituting a double majority system for some specific subset of decisions. This is something that we would like to ask management to be involved with and ask the Working Group to consider. Some other Directors pointed out issues that are not considered in the report which are a very valuable third input for our discussions. But I do think that it is worth considering a double majority system at this stage for the medium term.

Mr. Nogueira Batista made the following statement:

I would like to underscore some of the points we made in our gray and add one or two observations. First, we have the impression that some of the recommendations in the IEO report maybe weaken the Board, and we would not welcome that. We think the Board needs strengthening in several respects. We do not agree with the arguments that were brought forward to make the Board a more supervisory body, for instance.

Concerning the IMFC and the reinstatement or the creation of the Council, we agree with Mr. Fried that it may be an illusion to think that Ministers or central bank Governors would be heavily engaged in the business of the Fund even if we rearrange the institutions surrounding the IMFC, given the domestic pressures that are always present in the life of a Minister or central bank Governor. That is why the Board exists.

On the IMFC, we note that the report is lagging behind what has already been agreed to in the letter by Mr. Padoa-Schioppa to his colleagues after his election. There was already an agreement between the IMFC members that the term of the IMFC Chair would be up to three years, not up to five years as stated in the report, and that there would be a geographical rotation allowing developed and developing countries to head the IMFC. We support that recommendation.

Based on my personal experience, there is one recommendation in the IEO report on the Executive Board which is very important. We need to think of ways of strengthening the technical capacity of Executive Directors' offices. This is a concern that several Directors share. After one year and a month at the Fund, I have some ideas about this that I would like to discuss with Directors, but I will not raise them now. I would like to flag this as an important point for our future discussion. I also see merit in the proposal of extending the terms of service of Executive Directors from two to three years. Two years is too short of a tenure, given the learning curve. I have only been at the Fund one year and one month and I miss former colleagues of mine, not that their substitutes were not very good as well, but there is very excessive rotation.

Regarding the summing up recommendation made by the IEO, I have experienced in several cases with countries in my constituency and also on policy issues that there is a tendency to put the staff's words into the Board's mouth. I have had to struggle several times with the staff and with the Secretary on summings up related to countries and policy issues to try to have a more precise view reflected. As the report says, I was amazed when I learned after coming to the Fund that the code words for the summings up are not made public. This is something that does not work if the views of the Board are to be expressed. The code words should be descriptions that are well-known to the public so that it can interpret the views of Directors in Board meetings that have Public Information Notices.

On the selection process of the Managing Director, I agree entirely with Mr. Fried's comments. The report underestimates what has already been done at the Board and the decision we took last year on the occasion of the initiation of the process to find a candidate for the Chairman's predecessor. Mr. Fried is right that we have done what we can, but we have to have a political agreement to abandon this old-fashioned, antiquated rule that reserves the Managing Director. The current Chairman himself has said that he is in favor of abandoning this rule after his term at the Fund ends, and the same will have to be done at the World Bank because we need to have geographical diversity at that level as well.

Finally, but I was a bit concerned about the Chairman's wording when he said that we ended the quota and voice reform process. We have taken a first step in that process and the forward-looking elements in the decision we took recently have to be part of this governance reform. For instance, the review of the openness and variability and the corresponding data, which is a difficult technical problem, must be tackled and we look forward to the five-yearly review of quotas that has been agreed on. Part of my concern is that we do not lose the momentum we had gained since the Chairman's arrival on these aspects of the governance reform.

The Chairman agreed with Mr. Nogueira Batista that the Fund had ended the first step of the quota and voice reform.

Mr. Bakker made the following statement:

I am very thankful for the impressive work done by the IEO, a sentiment also expressed by other Directors. This report provides an excellent basis to discuss the modernization of the governance of the IMF. The IEO finds serious shortcomings in the governance of the Fund which, in some respects, have become outdated or, as my colleague called it, "old-fashioned." We do not live up to best practices in some respects. It is also clear that stakeholders are not satisfied with the respective roles of the governance bodies. Also, the staff is not convinced of the value-added of the Board. These are very serious findings and have to be taken to heart.

I would like to focus on three key issues. First, the IEO report identifies a number of recommendations which I would call low hanging fruit. Those are recommendations that could be implemented soon and there is no need to delay the implementation of such recommendations. It would be good to tackle that low hanging fruit in the coming months. Mr. Fried and Mr. Perrault have already identified a list of such recommendations to which I would fully subscribe to. Some of those were actually not very new and have been proposed by the ad hoc Working Group of Board Committees, including the establishment of an Audit Committee, which I have advocated.

There are, on the other hand, more controversial and wide-ranging recommendations which will need more time because they need to be discussed with more stakeholders. The follow-up of these recommendations can be addressed very usefully in the Working

Group work headed by the Chairman of the Evaluation Committee, as proposed by Mr. Fried and Mr. Kishore. It is a very useful suggestion that the Working Group should focus on the process and prepare an agenda and framework for discussing the recommendations. It could also look usefully at the suggestion of some of my colleagues to give a role for the IMFC Deputies to discuss certain governance issues.

By having these two layers, we can avoid the scenario mentioned by Mr. Kishore of having the Board be busy next year with its own organization instead of assisting the membership. Given the economic slowdown, the financial turmoil, the increase in food prices, it is of utmost importance that we remain outward-looking and make sure that we are ready to assist the membership.

By assessing effectiveness, efficiency, accountability and voice, we should always take the mandate of the Fund as the basis. That means that going forward, we have to take a critical look on whether we currently deliver well on our mandates. In my view, there is much scope for improvement, as the Fund is currently not on top of matters when it comes to capital account liberalization or financial stability issues. Inspiring a more outward-looking Work Program would help to inspire the staff after the reorganization. So, I take all the recommendations of the IEO to heart, but caution that we should avoid remaining inward-looking.

The IEO makes a very positive assessment of the Fund's firefighting capacity in times of crises, but at the same time, as Mr. Mozhin and Mr. Lushin have noted in their gray, the Fund is seen by many as not having done well in past crises, especially the Asian crisis. I wonder whether this has something to do with the lack of legitimacy of our work. In my view, involving the Board more at the appropriate multilateral level could be a useful countervailing power to what is perceived—rightly or wrongly—as a dominating "Anglo-Saxon" way of thinking of the staff and other stakeholders.

Finally, I believe communication to the outside world is key. The IEO papers should be released promptly, but should be accompanied by a clear indication by the Board and management of how we will deal collectively with these issues. It is a sign of strength that we have such a wide-ranging evaluation even if it is very critical in many respects on governance. It is important to signal to the outside world that we mean business with respect to governance reform.

The communication should also include an invitation for input from the outside, as the Managing Director mentioned, and indicate a clear commitment to address the recommendations. Of course, the quota and voice decisions have already been part of such reform by improving the voice of emerging and developing countries in the Fund. But other steps are needed as well. I believe the release of this report, when it is accompanied by a strong statement by this Board and management of how we will proceed, can be instrumental in further improving the outside perception that the IMF is ready to change under the Managing Director's leadership.

Mr. Moser made the following statement:

I fully agree with Mr. Bakker that this evaluation of the IMF's corporate governance should be seen as a sign of strength of the Board and this institution to actually have such an evaluation. It should also be clearly communicated with action taken to address these issues. In that respect, I fully agree with the process for moving forward that the Chairman outlined in the beginning of this meeting. I also agree that it is probably premature to have a summing up of this discussion at this stage.

I agree with the implementation plan, even though there are some recommendations that are addressed to management. We have to see how to bring these recommendations back into the work stream of the Working Group that has been mentioned that the Dean has been forming. The task of this Working Group will be, first, as mentioned by several Directors, to sort through these recommendations. Some of them are not new but, nevertheless, it is very helpful to have a fresh look at them and decide whether we want to act on them or not. If we do not act on some recommendations, we have to have a clear understanding why we do not want to act on these recommendations. The Working Group should sort through the recommendations and make suggestions on how to organize the response to these recommendations in this process, as mentioned by Mr. Fried, Mr. Bakker, and Mr. Pereira.

There are some recommendations that are low hanging fruit. I am thankful for these recommendations, even though they do not address the big questions in which a lot of people would like to spend their time on. But these recommendations are very important to bring the IMF back to the point where we are an example for the world of international financial institutions in terms of corporate governance on issues like Code of Conduct and ethical standards. These issues can be tackled relatively quickly within the existing structure of the standing committees. There are the other issues that will take much longer. There are probably some issues which will be extremely difficult to find consensus on and where we will take a long time to move forward. But if we can act on some of these low hanging fruits quickly, we can clearly demonstrate that we are moving forward and improving the corporate governance of the Fund.

It is very important, as pointed out by Mr. Fried and Mr. Bakker, that we clearly discuss the way we communicate to the outside world how we will react to the IEO report. Maybe we will have some time afterwards to discuss the communication that should be issued together with the IEO report, particularly since we do not have a summing up to be issued together with the report.

In terms of the proposal made by the External Audit Committee regarding the Director of the Finance Department who will be replaced shortly, the IEO also has a recommendation with regard to the Secretary of the Board, which I understand will also be newly appointed. I would like to ask the Chairman before he makes these appointments to take these considerations into account. I do not know yet where the Board will come out on this, but there is now an additional sensitivity to these appointments, given the comments by the External Evaluation Committee and the IEO.

Mr. Sadun made the following statement:

I would like to thank the work done by the IEO. They have done very strenuous work, and provided useful inputs. At this point, since we have issued a comprehensive gray, I do not want to reiterate the points that we made in that gray. Rather, I would like to focus on the Chairman's initial remarks and some of the comments that Directors have made this morning.

We fully associate with the Chairman's opening remarks. The spirit of the exercise that we started today is exactly the one that the Chairman has identified, and this is the opening step of a process which we already know by experience is going to take a lot of effort. It probably will involve a lot of reiteration and require the support of a number of inputs.

We certainly agree that major improvements are necessary in the governance of this institution. Some of the improvements which have been identified by the report are certainly sensible. However, I would like to caution on the risk of taking decisions outside the framework of a comprehensive context. If we all agree that this is a comprehensive process which is going to require many steps, it makes sense to make sure that we do not prejudge measures that by themselves might appear appropriate, but might appear somewhat different in the broader context.

I would like to follow-up on two specific issues which have already been discussed. First, on the selection process for the Managing Director, I fully agree with Mr. Nogueira Batista's comments that the selection process that we have followed last time represents a major break with the past. There is the intention that that should be the new basis when the occasion will arise next time, hopefully not too soon. What has already been achieved on that occasion should not be belittled.

The second process on which I want to make a comment on is the process of the selection of the Chairman of the IMFC, which is a task contrary to the previous one facing us right now. The two points that Mr. Nogueira Batista has reminded us are very important. Some kind of time limit for the Chairman is appropriate, as is the suggestion for some kind of geographical rotation of the Chairman of the IMFC.

Mr. Kiekens made the following statement:

After having read last night written statements of my colleagues, I read even more. I went to my favorite authors: Joseph Gold, Manual Guitian, and Harold James, a major historian of the Fund. I had also the luck to read again a speech of Governor Heikensten during the conference of the IMF on "A Changing World." The Governor asked what can be done to strengthen the governance of the IMF. Heikensten said there is every reason to approach this question with humility. Many people have reflected on it and plenty of suggestions have been put forward in the debate, and today we have many more.

What was striking to me was that the IEO focused on a number of rather technical issues: first, on minimizing overlap and gaps in the competence of the Executive Board and management; second, the perceived distraction of the Board by Executive functions at the expense of oversight of management and strategic directions; third, work practices of the Board which, according to the IEO, should rely more on Committees; and fourth, mechanisms for holding management accountable. Important as these subjects are, I still consider them rather technical.

It comes as no surprise that the IEO recommends the establishment of a Council, a controversial issue that has been discussed time and again. This recommendation risks becoming a distraction. If it is not handled carefully, this may add to widely perceived significant governance problems at the Fund and a perceived lack of legitimacy and accountability that, in the worse case, would justify some countries denying the Fund's mandate in promoting international monetary cooperation. Paradoxical as it may appear, today's IEO report could undermine rather than enhance the effectiveness of the Fund if we do not handle this report successfully.

In my opinion, a major shortcoming of the report is that it omits providing the broader framework of the Fund's truly innovative and unique governance structure, and how it must be understood and applied. Let me start where it all began, in 1933. After a few weeks, when the newly-elected U.S. President Roosevelt abandoned the gold exchange standard, he declared during a conference in London that the United States had no intention to stabilize the dollar since, as Professor James observes, domestic priorities had precedence over the requirements of an international system in the interest of other countries. We at the Fund are well aware of how the breakdown in international economic cooperation had led to protectionism and a collapse in world trade and output. Unable to solve their economic crisis, parliamentary regimes disintegrated in the run-up of the coming war.

I would like to quote again Harold James on how he concludes his account of that period: "economic crisis produced political instability, and the failure of international cooperation made more likely a breakdown of peace. In this case, it fell to economists and statesmen not only to attempt to avoid the depression in the future, but also to search for more ways of promoting and institutionalizing international economic cooperation." This is the fundamental question of how at that time statesmen and economists at the end of World War II met the challenge of institutionalizing economic cooperation. The answer was an unprecedented willingness to surrender a significant part of monetary sovereignty to a supranational body, the IMF, and to equip this new institution with a truly innovative governance structure to foster the new institution's authority and the willingness of its members to comply with it and with what they had agreed.

To me, it is still amazing that sovereign nations agreed in 1944 that any significant decision on the parity of the currency needed to be approved by the Fund. I do not think that would be possible today. Countries collaborated with the Fund to promote exchange rate stability, to maintain orderly exchange rate arrangements with other members, and to avoid competitive exchange rate alterations. But to implement this agreement, an unprecedented governance structure was put in place. Its centerpiece was—and still is—a highly professional and politically independent technocracy headed by a Managing Director maintaining orderly international relations. In particular, assessing exchange rate policies required that political authorities and government officials were objectively informed by such an international technocracy.

Probably the most important governance provision in the Articles of Agreement is Article XII, Section 4(c), which is not sufficiently underlined in the report of the IEO that "the Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority." Even more important or equally important, I would say, "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." I believe that the spirit and the letter of these provisions are not always vigorously adhered to. One can have the perception that some countries and country groupings may attempt to influence the opinions of the Managing Director and of the staff. Powerful countries, in particular, must above all strictly refrain from attempting to influence the staff in the discharge of these duties. They should avoid creating the perception by other Fund members and the broader public opinion that the Fund is an instrument for promoting individual interests at the expense of the common objectives.

The Managing Director and the staff must adhere to that code of impartiality and highest standards of professional competence. Members should respect the independence of the Managing Director. At the same time, management, in making proposals to the Board, should not refrain from providing its own independent judgment. This is not always so.

The IEO observes that the Board almost always approves the proposals of management. This analysis is seriously flawed. First, it is factually incorrect that the Board hardly ever rejects proposals made by management. Major high-profile initiatives of management, such as Fund jurisdiction over capital account liberalization and an orderly sovereign debt restructuring mechanism, were not supported by the Board. There are numerous, other less high-profile management proposals which also did not go through. At the same time, a more subtle analysis shows that exactly the reverse may be true in some instances. It is not the Board who is subordinated to management, as the IEO seems to argue, but management, who, in formulating proposals, caters to the majority view of the Board even if there are convincing arguments in favor of a more balanced solution in the interest of the Fund.

Let me give a few examples. In SM/08/63, the staff paper on the rate of charge and burden sharing in February of this year, the staff recognizes the unsustainability of the present burden sharing mechanism and that it created issues of equity between debtors and creditors which could be handled by amending the current system. However, as the staff observes, "this may be difficult to obtain in light of the recent and prospective further reductions in the adjustment of the rate of charge." Consequently, management refrained from proposing a change in the burden sharing, probably contrary to its own judgment, because of the perceived majority in the Board. Because of the critical and central role of management in the governance of the Fund, the longstanding practice which de facto excluded many members from a meaningful participation in the selection of the Managing Director was perhaps among the most detrimental factors for the Fund's legitimacy and relevance, as Mr. Mozhin and Mr. Lushin observes. It is my understanding that this practice will be abandoned.

I should not like to close my remarks on the critical role of management without pointing out possible—and I stress possible—

major weakness in the governance of the Fund. This is that we have only one Managing Director with a major concentration of competence and power in one man. This system was seen by the authors of the Articles of Agreement as balanced since it was balanced by a powerful Board. However, the more we would reduce the executive role of the Board, the more probably it becomes unacceptable to have only one Managing Director. We should in that case reflect on the need to have a Board of Managing Directors rather than one Managing Director, but this may be a consequence of changing the delicate balance in the governance structure of the Fund.

I come now to the second major part in the governance structure of the Fund. It is obvious that the countries that established the Fund did not, for good reasons, go as far as to relinquish the entire governance of the Fund to the political independent technocracy. The main task of that technocracy, as I explained, was to correctly inform the decision-making process not by management but the Board of Directors and by the Board of Governors, who are in charge of conducting the business of the Fund. Those Executive Directors needed the full confidence of the membership and have an intimate understanding of the political and economic aspects of a member's situation. Thus, they are appointed and elected by the members themselves and can seek, unlike the Managing Director, advice and accept instructions, provided they are not contrary to the Articles of Agreement.

It is interesting to observe that the Articles of Agreement are carefully drafted and avoid qualifying Executive Directors as "representatives of countries." This may seem paradoxical today when so much time and debate is devoted on the issues of voice and representation. As Sir Joseph Gold, a most influential General Counsel of the Fund in the 1970s and 1980s, has explained well, an Executive Director is not a representative of his constituency. An Executive Director participating in the decision-making process of the Fund does not cast his votes on behalf of his constituents.

The General Counsel, in its legal opinion on the status and obligations of Executive Directors, concluded that—and maybe it can be circulated to the Directors—"unlike representatives of member states in other international organizations, an Executive Director of the Fund is an official of the organization legally accountable to the Fund for the discharge of his duties. The fact that he has been selected by certain member states does not create any obligation for him to defer to their views or to cast his votes in accordance with their instructions. Even when he has agreed to present their views to the Board or to the Fund, he remains bound to cast his votes in accordance with his obligations to the Fund." The single most important threat to the good governance of the Fund is an attempt to frustrate the independence of the Managing Director and the staff. The other major threat for the good governance of the Fund and Head of the Executive Board is conflict of interest. If Directors discharge their duties contrary to the provisions of the Articles of Agreement, it is because of the individual interests of the countries they are in general not expected to represent, and this may add to this perceived lack of good governance in the Fund.

We can discuss for extended periods of time technical and general aspects of governance. I should not deny the relevance of all these aspects, and they must be handled carefully and skillfully. What matters most for good governance is good faith and willingness to adhere to the spirit of true multilateralism in which countries accept to make concessions on their own interests for promoting commonly agreed objectives. Many formal democracies have all the formal rules in place. However, they gave us truly corrupt autocracies. The rules are extremely critical, but by themselves do not guarantee good governance.

We should not conclude from what I said that the governance of the Fund is weak, although I am sometimes frustrated, as we all are. However, we should have a realistic set of benchmarks. The Board and the governance in the Fund to a large extent is a mirror of the governance in the world and of countries that constitute its membership. With this benchmark in place, I believe that the functioning of the Board and of the Fund as a whole is a remarkably good example of democracy at a global level, even if much progress can and should be made.

These are more general conclusions. I did not want to put them on paper. I wrote them yesterday night, but I think they give some background on how we should approach the more technical issues that are on the table today.

The Chairman thanked Mr. Kiekens for the enlightening remarks.

Mr. Ge made the following statement:

We have already issued our gray. I want to underscore a few points. First, the governance issue is very comprehensive and includes a lot of things that we discussed, including the Board, the IMFC, and management. I want to highlight that quota and voice is a focal point and is the foundation. Without fundamental reform in that area, we cannot reach a desirable outcome on governance. Like other Directors, I hope in the future that we will continue to move forward with the quota and voice reform and set up automatically to adjust the mechanism according to global economic developments.

Second, the IEO's recommendations in the paper provide some suggestions to further discuss governance reform. We need to build on this recommendation to solicit the viewpoints and comments from other stakeholders like the G-20 and other organizations, including the academic sectors. This is a very complicated issue and we should listen to more views from the different fields in different respects.

Third, regarding procedure, I support the Board setting up a Working Group to prepare work on this report. The Board should initiate the package of reform measures and should play a big role in this reform process. The Board should probably set up a Work Program for the next couple of years on how to push this reform forward. We cannot rely on one or two years and one or several discussions to resolve this issue and determine our priorities.

Ms. Mañalac made the following statement:

Like other Directors, we thank the IEO for its high quality report that has brought out a lot of important issues for serious consideration. We agree that work on these issues will not be addressed in a single meeting. Therefore, in our gray we supported the creation of a Working Group that would chart a roadmap to move the work forward.

To be effective however, any roadmap should be accompanied with timelines. I heard Directors say that issues that are now on the table are not new and some of the discussions on these issues have dragged on for quite some time. In this connection, we also supported in our gray the list provided by Mr. Fried which contains recommendations that can be acted on quickly.

For the other recommendations that need some time to be considered, any notional timeline would signal that there is an end to the process. Therefore, we suggest to the Working Group that this be considered and that management also consider having a timeline in their Work Program.

Mr. Raman made the following statement:

As we issued a fairly detailed gray, I would like to add a couple of points in response to the statements of other Directors in the grays as well as in today's discussion. First, we thank the IEO for their very comprehensive report. It is very thought-provoking and we appreciated the detailed work that has gone into it.

Second, we wholeheartedly concur with Mr. Bakker when he says that we cannot afford to turn inward again for another year or five years, and we need to keep a view on what is happening in the world today if we are to remain relevant as well as to improve our legitimacy.

I would like to make a couple points on surveillance, because they were brought up in a number of grays. There are two points that were made. Ms. Lundsager was right when she said that Directors should be concerned when the staff thinks that the value-added by the Board on surveillance, especially country surveillance, is not seen as particularly great and questions the competence of Directors especially on financial matters. The perception of our value-added is not something that we should necessarily be worried about. But one has to also say that the Board has also voiced similar concerns about the work that has been put forward. Many Directors, including my chair, have made the point that financial analysis has not been sufficiently integrated into the analytical work of the Fund. We wonder if the IEO has found the villain in the wrong place. Obviously, we have a stake in feeling that the staff could do better perhaps, but certainly we do not think that is necessarily as cut and dry as the report suggests.

On the point on effectiveness and the speed with which action was put together in terms of the Fund's firefighting capability, we wholeheartedly concur with Mr. Moser and Mr. Bakker that the view in Asia is not necessarily that the Fund did a fantastic job. It moved quickly, but it is not certain whether the actions taken were necessarily in the best interests of the members. For instance, we saw requirements for prior actions which involved closing down banks in both Thailand and Indonesia worsened the crisis and made the subsequent recovery much more difficult, an experience that thankfully the Fund has learned from as we see in response to the turmoil unfolding in the advanced economies. But one would not want to go too far in saying that these were the right actions, though they were certainly actions that were taken very quickly.

Mr. Henriksson made the following statement:

Let me start by thanking the IEO for their report. Let me also support the process forward as has been proposed by the Chairman, Mr. Fried, Mr. Moser, and other Directors. We are now, as Mr. Sadun said, taking a step in a long process. I am one of those that has arrived after Mr. Nogueira Batista and since I arrived, I have focused on the quota and voice reform, the budget, and now on governance. Those are very important subjects.

But as Mr. Bakker and Mr. Raman noted, there is a risk that while we like to spend time on this report, we may become too inward-looking. Outside this room, the U.S. economy is going through rough times, currencies are moving dramatically, and food price developments risk attainment of the Millennium Development Goals.

I must confess that it was almost relieving to spend some time on Iceland the last few months. There, I think the IMF did an excellent job. It is really important that the small countries like those in my constituency have some kind of representation in the Fund. I do not think that it is a secret that the masterminds behind doing this for Iceland is a former Executive Director who is now the Vice Governor of the central bank, and my former Alternate Director. They knew about the Fund because they have been here.

It is good that we start the discussion on governance, but we have to be careful that this does not fully cloud our minds. We have to be careful so that in-house efficiency does not make this an institution without legitimacy.

Mr. Shaalan noted that several Directors' felt that meaningful progress had been made on the process to select the Managing Director. He disagreed, and felt that only a totally open election process would represent a break from past practice. He agreed with Mr. Ge's point that the basic problem was one of quota and voice. Unless meaningful progress was made in that regard, it would not be possible to progress in other areas.

Mr. Mozhin made the following statement:

> Like others, we have issued a preliminary statement, and at this stage I would only want to make one point. I think the most striking finding of the report is the survey that indicates that 40 percent of staff consider that the Board's contribution to staff reports represents no value-added or even negative value-added. This is the kind of finding one needs to consider more carefully. My first question is: what kind of value-added is staff expecting of this Board? In good times, I can devote a couple of hours to preparation for Board meetings. We have heard Mr. Nogueira Batista's suggestion that we need to improve the technical capacity of the Offices of Executive Directors, which may be a good suggestion, but still one has to be pragmatic and realistic in terms of what kind of value-added can be expected from us. If staff is expecting our contribution to come on the technical side, then I would have concerns. I think the problem is the staff's understanding of the role of the Executive Board. As I mentioned in my preliminary statement, there seems to be a tendency to see the Fund as a fundamentally technical institution, which we consider to be an erroneous vision. If the staff perceives the often wide diversity of views on policy advice as negative value-added, then I would say that such negative value-added is what is needed, because the whole essence of the Board's discussion is to deliver our authorities' views and comments which, by definition, will be diverse and dilute the straightforward, technical advice given by the staff.

Mr. Kiekens made the following statement:

> I would like to add to what Mr. Mozhin said. When reading this observation in the IEO report, the first thought I had related to the Court of Justice of the European Union. Ninety-five percent of that court's rulings are exactly in accordance with the opinion given by the Advocate General. On that basis, can we conclude that the Court is superfluous since this single person is right in 95 percent of the cases? I have never encountered such an analysis in Europe. So, given that the Board is, in most instances, and notwithstanding divergent opinions, in agreement with the staff, should we conclude that it contributes no value-added?

My second thought was that this finding is probably a good sign. As I explained in my intervention, the critical component in surveillance is the willingness of members to carefully consider an independent, objectively written report drafted by the most competent technocracy in the world. I was once shocked, Mr. Chairman, when we discussed the review of surveillance and, in particular, the publication of surveillance reports, when Ms. Lissakers, then the Executive Director of the United States, said we must publish this report, because it is the only objective analysis of a particular economy. What can we take from this debate? Is the Board superfluous? Not at all. What member states agreed among themselves, through representatives here or through this Board, was to have a serious discussion of issues related to economic management in other countries. If we would take away this debate, it would alter surveillance to something entirely different from what was agreed, and I do not see any willingness of the governments in the world to change that fundamentally.

My last reflection was that, when I sit in this Board, it is astonishing how frankly Directors are willing to speak about policies in other countries. When I compare that with what is said very timidly and cautiously in the IMFC, then getting rid of the Board's work on surveillance would significantly undermine our function.

Mr. Henriksson agreed that peer pressure is invaluable to achieve results.

Mr. Fried made the following statement:

In a similar vein, it sounds like there is a false dichotomy. If I recall Mr. Kiekens' statement, in effect you have the purest technocratic analysis, which is then subject to peer review. The beauty of the original architecture of the Fund was to provide a safety valve in exchange for the surrender of sovereignty. If I am a government facing real world changes in economic policy, I am not saying in advance I am going to do whatever the textbooks and the Ivory Tower tell me to do. I want somebody to give the Fund's staff a bit of a reality check. Somebody has got to say, yes, if I follow your advice, what about the resulting food riots. There is something more than a technocratic dimension that the Board must perform. As we said in our preliminary statement, this is an essential function for each and every Article IV consultation. Whatever you think of a more supervisory function for the Board, at least in our view that must not detract from the more

> hands-on operational role of the Board in surveillance. If surveys tend to suggest that we are not doing our job, that is not a reason to eliminate the Board. It is a reason to reflect on how to make the Board more effective. Hopefully, there is a roadmap for us to improve that value-added role that staff may not recognize. Recipient governments do recognize what the Board provides in terms of observations. I can report from my own constituency—from Canada right down to Belize and Grenada in the far south—that authorities read the preliminary statements and value that input as a tremendously important complement to the technical analysis in the staff reports. So, I think there are both technocratic and policy dimensions to what the Fund does on surveillance, which argues, in my view, for not only preserving but strengthening the interaction between staff and the Board on an equal basis. Streamlining should not deny smaller countries the benefit of that additional advice.

Mr. Moser pointed out that the surveys indicated that staff with previous policymaking experience, as opposed to those coming directly from academia, tended to have a greater appreciation of the value-added provided by the Board. One of the strengths of the Board is the policy experience it brings to technical matters, in addition to its uniquely international perspectives.

Mr. Sadun shared the points raised by Messrs. Moser and Henriksson. The staff's views might reflect a false notion that the Board should play a technocratic role. Rather, the Board should serve as the link between the Fund and the authorities, with its value added the political insight it provides to both sides. A possible explanation for staff's attitude vis-à-vis the Board is that the staff does not accept the Board's political role and considers itself best placed to represent the points of view of the authorities. This was a potentially troubling conclusion, given that in his own constituency there had been several cases, particularly in the context of Article IV consultations, where interventions by Executive Directors had been instrumental in clarifying or even resolving some of the political frictions that existed between the authorities and the staff.

Mr. Larsen made the following statement:

> Before I go on to my intervention, I would just like to follow-up on the debate. Lots of good things are being said: it is good to have reality checks on 'Ivory Tower analysis;' and the Board needs to do pursue better scrutiny. It is very clear from the report that we are not providing effective scrutiny; we are providing an awful lot of it, but it is not effective. I would rather the Board spoke less and heard

more. That would be an important way of enhancing our oversight over surveillance.

On the report more generally, I am very grateful, like many others, for its comprehensive analysis and proposals. I would like to be able to say that I find the discussion encouraging, and in some ways it is because we are talking about first steps and time lines and so on. What does worry me is that it is difficult to see in the current proposals what would take our work forward. The Board has identified real problems; Fund governance needs substantial reform and the proposals that we should eventually adopt should flow from these clearly identified problems. In that sense, I would like to associate myself entirely with Mr. Sadun's comments that we do need a comprehensive package here that works as a system. Rather than us randomly picking up bits, we need a system that works.

This sort of self-reform is not easy and it is certainly difficult to see, on the basis of preliminary statements and Directors' interventions this morning, a kernel of reform proposals emerging that would address all these challenges. It is clear that we do want to pursue a comprehensive package. In that sense, I agree with setting up a working group, although I continue to be dissatisfied with the way we are setting up these working groups and sticking people in them. That is a governance issue in itself. We clearly need to look outside the institution for input. I welcome proposals for seeking the views of shareholders and stakeholders in ways that can help us come to this comprehensive view.

The Director of the Independent Evaluation Office (Mr. Bernes), in response to Directors' comments and questions, made the following statement:

I want to thank Directors for their preliminary statements and for their contributions today. It is clear that there is no correct answer on the appropriate governance structure for any particular organization, including the Fund. There are a number of dimensions to that question, as we highlighted in the report. Any governance structure needs to address issues related to effectiveness, efficiency, accountability, and voice. The balance is going to be different in a given case, and different individuals or countries are going to put greater weight on one or the other. What we were hoping to achieve in our work was to provide a platform for discussion and to identify some of these trade-offs so that, in taking the work forward, hopefully one can be better informed. I think that the proposal that has been made to have a working group to pursue this certainly is an appropriate way forward, because these are not issues that one can resolve in a single sitting.

One technical point regarding publication of the report. Once we receive the concluding remarks, we can then undertake the technical work to publish the report. It would be odd if there were no summary statement of any kind.

A comment on methodology. A number of Directors have suggested that the report relied almost exclusively on surveys. I want to underline that is not the case. Surveys are an important technique and source of information in evaluations, but in this case we did go back to assess the governance structure against the Articles of Agreement, against practice, both formal and informal, and against best practice in both private and public sectors. This is reflected in the background papers. A paper was prepared by Dahlberg and Associates, a consulting company that in fact worked with the United Nations on a major review of governance, distilling best practices from a number of codes in a number of countries and how that might be relevant for intergovernmental organizations. We also made use of recognized experts to inform our review of private sector best practice. We looked at 11 other international organizations, including the World Bank. In some ways every institution is unique, but there are important similarities. For instance, the World Health Organization is a multilateral body that also conducts surveillance. It has to respond in crisis situations, i.e. pandemics, very quickly. There are lessons we can learn in that regard, so we did try and cover all of our bases in that sense.

We had to put the evaluation in a broad context of the main governance organs, because, as speakers pointed out today, the parts are interrelated and you cannot really change one without thinking through what are the implications for other parts. The IMF has been probably more successful than most—if not all—multilateral organizations over the span of its existence. It is often cited as an example of efficient operation and management. I think the challenge we saw is how do we ensure that that continues to be the case for the next 60 years. The world is changing; governance is changing; and what we know about institutions is changing. Going from 40 founding members and 12 Executive Directors to today’s size without radical changes to the governance structure raises questions, so we sought to identify where practice needs to be changed to ensure appropriate systems of checks and balances for today's environment.

There were a number of technical questions in the preliminary statements and today. I do not propose at this point to go into them. Certainly, we would be happy to take those up when the working group meets or in the context of committee meetings. Indeed, that may be a more productive approach.

I would touch on some general points. A number of people have commented on the call for the Council. The conclusion we came to was that ultimately the power is with the Board of Governors. While the Board of Governors has delegated authority, they cannot abdicate responsibility. The question is how to meaningfully engage with the Governors who in the end have the ultimate responsibility. We concluded that enacting the Council was a possibility, as provided for in the Articles of Agreement. Some have said our Ministers are very busy; they are not going to be able to spend a lot more time. There were also questions on whether a Council would lead to major changes. We think at a minimum it would bring greater transparency and accountability to decisions. As a number of Directors suggested, in effect, members of the IMFC do give direction. I do not know, Mr. Chairman, whether when you, as a Minister of Finance attending the IMFC, were simply advising the French Executive Director or not, but I think a number of Directors have said there is direction which is given. The question is whether on critical issues, be it selection of the Managing Director or major policy decisions, should those who are taking the decisions be delineated more clearly, more transparently, and, therefore, made more accountable.

Secondly, we believe a Council would permit greater engagement on the part of Ministers. One of the points that was raised in a number of our interviews with IMFC members was that they did not feel sufficiently engaged. They come to participate, but the discussion takes place in some other room. There is no sense that they are taking a decision or undertaking something specific.

We also thought the Council would complement the accountability of the Board collectivity. There is some accountability of an Executive Director to his or her authorities, but there is no accountability of the Board per se. A more formal role for a Council of

Ministers would enhance that accountability. We believe it could lead to greater ownership on major decisions, not that the Council will be making major decisions at every meeting. However, if there is a major change being contemplated, then having Ministers make that decision and realize the implications for their countries' participation in the activities of the organization could lead to greater engagement.

We considered that the ability to split votes in the Council, which is a different voting structure than that of the Board, could contribute to greater collaboration within constituencies. Indeed, the very possibility of splitting the vote implies a need for greater coordination. We think that would contribute to voice and better decision-making. We know the concerns of some chairs that issues might become overly politicized, which is why we said one can look at different voting majorities and other ways to address some of these issues. If there is a will, then those concerns can be addressed.

On the Development Committee, Directors expressed a range of views. Some say we should look at it and some say that this is not our domain. In fact, one Director said that the Development Committee is right up there with the IMFC as two ministerial advisory bodies. In fact, what we are trying to do here again is to align the structure with reality. Under its terms of reference, the Development Committee was established by the Board of Governors. In fact, the chairs in the IMF every two years select the members of the Development Committee, and they rotate back and forth. Clearly, that does not happen. We know that this Board pays a lot less attention, and indeed Directors have raised on a number of occasions questions on why we are doing the Global Monitoring Report, which is more the World Bank's business. Board members do not treat the Development Committee communiqué as a guiding document for the work program, as is the case with the IMFC. A number of staff and former Deputy Managing Directors have said we were not quite sure why we were there. This is a budgetary cost to the IMF. For all of these reasons, we certainly thought it warranted attention. We came to the conclusion, consistent with having a ministerial decision-making body, that the Development Committee as an advisory body did not quite fit. It would be consistent with the model we recommended.

On the role of the Board, executive versus supervisory, we did not propose a hard line and it is probably impossible to draw a hard line. Clearly, it came through in the survey results that there are certain issues where the membership thinks that Board involvement is important. The question we tried to raise is how to reduce attention on day-to-day matters such that the Board could better focus on some of the bigger questions -- in other words, so that the Board can step back a little bit and look at trends rather than the specifics of every transaction. We did not suggest that the Board should withdraw from surveillance, nor did we suggest that the Board should only focus on strategically important countries. What we did say was that surveillance involves a major commitment of time. The Board spends 25 percent of its time on Article IV consultations, and a lot more time is spent in offices preparing preliminary statements for those discussions. What is the value-added derived from that commitment of time? We have just had a discussion of staff views in that regard, but it bears noting that only 21 percent of Board members said they saw significant value-added by the Board. I would agree with those who say: 'staff may not like that, but if we are doing the right thing, tough.' That is probably the right approach. However, I think you cannot look at the staff views in isolation from your own survey results, where a number of you have raised questions.

Once again, in our interviews with authorities, the issue of legitimacy arose. A number of member authorities told us that: 'the Fund is the Mission Chief; we get the Mission statement, and that is it; we do not even look, certainly not at the level of Minister or Deputy Minister, at what comes out of the Board three months later; things have moved on; we have moved on.' In that light, the Board's surveillance work merits some reflection in terms of how to ensure the most efficient contribution with the maximum value-added and taking account of legitimacy.

Second, we thought it was important to cover the functions normally assigned to Boards in the private sector as well as other intergovernmental agencies. As a very senior official said to me during the course of this evaluation, 'the Fund's Board does not pay enough attention to administrative and human resource issues, because we are economists, and that's what we want to focus on. We were not as interested in managing the staff.' I think that is a natural preference and it is something that I would encourage you all to think about.

We were asked whether we had considered splitting the role of Chairman and Managing Director. We did. Frankly, we came to the conclusion that a split was not appropriate. While the position carries great responsibility, it does not necessarily carry great authority. In our view, splitting those roles would weaken the position, which would weaken the institution. It could lead to problems with inadequate flow of information to the Board. Rather, what we have attempted to do is to ensure that the system of checks and balances can operate efficiently and effectively through an enhanced Committee structure, through chairmanships, and through an accountability framework.

Ms. Lundsager made the following statement:

I thank Mr. Bernes for his comments. With regard to your last point on splitting the Chairman from the Managing Director, I totally agree with you. I think it is important to have that in one position.

I think there was a lot in the report that was very thought-provoking, which was reflected by all the comments around the table this morning. One thing many colleagues seemed to come back to is voice and representation. That is why we have put out our proposal to have all chairs be elected and to eliminate the appointed seats. This would facilitate the Board consolidation and enhance the voice and representation of emerging markets and developing countries. I would appreciate if that proposal is kept on the table. I think I am going to need some input from legal counsel on what measures are entailed in eliminating the appointment of chairs, given that this is not just a matter of eliminating one paragraph in the Articles of Agreement.

I believe there is wide support for establishing a working group among Executive Directors. We do need to reform the institution and continue what has been started, with the first step on the quota and voice, so that we can enhance our legitimacy among the broad membership of the global community. I totally agree with Mr. Sadun and others that we have to pursue a comprehensive approach and not change one thing that has implications elsewhere. I also think Ms. Mañalac had an important point on the timeline. Having a deadline focuses attention.

Given that I have a room full of management and many department heads and senior officials, I would like to endorse the point Mr. Moser made earlier, which we also mentioned in our preliminary statement, that we could hold an annual ethics briefing for the Executive Board, management, and senior staff. I think it is good to have a face-to-face reminder of our ethical responsibilities, even though we can all read it on the website.

Mr. Nogueira Batista requested that the General Counsel comment on Mr. Bakker's question on the motivation behind the provision in the Articles of Agreement enabling the appointment of Executive Directors. He also disagreed with the IEO Director that Board outputs were of little interest to the authorities. In his constituency, while practice varies from country to country, the concluding statements of the mission are read and discussed by the Minister, by Deputy Ministers, and by central bank Directors. Furthermore, the Article IV consultation report receives considerable attention in the capitals; not always by the Minister, but certainly of the Under-Secretaries and central bank Directors that deal with international affairs. With regard to the Summing Up, in some cases the Ministers themselves review the document and request changes.

Mr. Sadun agreed with the IEO Director that the authorities paid close attention to the concluding statement of the mission, but noted that the political aspect of surveillance occurred only at the very end of the process, in the form of a Board discussion and a Summing Up. A current weakness of that process was the perception that the Summing Up too closely resembled the staff's report and not Directors' discussion.

Mr. Shaalan concurred with Mr. Nogueira Batista that the products of Article IV consultations were closely followed in his constituency, with some countries going so far as to translate the documents into Arabic.

Mr. Claveranne made the following statement:

> As we have not taken the floor in the first round, we would like to add our compliments to the IEO for the very important work they have done and for their thought-provoking recommendations. Along with the rest of the Board, we believe that this is a process that we have only started today. In that regard, I would like to support Mr. Sadun's remark that what is needed is a comprehensive approach.
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> In our preliminary statement, we mentioned the fact that when it comes to the time of assessing the governance structure of the Fund, we need to assess it against the background of the Articles of Agreement, and more fundamentally we have to assess it against the background of the mandate of the Fund. The question is whether the structure, as it stands, helps or hinders the IMF in fulfilling its mandate.

As we take stock of all the issues that have to be addressed, we believe that there are two other sets of issues that have to be considered. First, on the issue of voice and representation, Mr. Pereira mentioned earlier the issue of a double majority. This is clearly something we have to look at. Along those lines, we have to look at other issues that have been put in place 60 years ago that had rationale at that time, such as special majorities and the veto it gives to one shareholder. We have to look at whether this is still appropriate as we address all the voice and representation issues.

Second, with regard to the mandate, as Mr. Ge mentioned in his preliminary statement, we have to enable the Fund to effectively promote international monetary cooperation and maintain global financial stability in an increasingly globalized environment. In our view, as Mr. Bakker referred to earlier this morning, this means perhaps that we also have to examine our mandate as it is presented in Article I of the Articles of Agreement, and assess to what extent it is relevant to the key challenges of today's global economy, such as capital account liberalization and financial stability.

The Chairman made the following statement:

Let me just make a few comments. First, I must say that I liked the discussion this morning. I think we can all be very proud of belonging to an institution that is able to conduct this kind of discussion that frankly addresses its weaknesses and how they might be corrected. I do not know many institutions, at least public international institutions, that are likely to undertake this sort of an exercise. I think this is a very good signal of the lively spirit in the IMF, but it means also that we still have a lot to do, and it cannot be done overnight.

I would like to make a comment on an important question raised by Mr. Moser, which concerns when it is appropriate to apply new rules. We are a rules-based institution. While our rules have not been changed, we have to apply the current rules. Part of the discussion this morning was a discussion about the Council. Some may be in favor and some against. I cannot guess the outcome of this discussion, but I am not going to behave as if the Board has overnight become a supervisory board.

I appreciate all the work that has been done by the Independent Evaluation Office (IEO), and I said that to Mr. Bernes yesterday. The IEO has raised important points, but we cannot follow up on these matters immediately. I am sure you will agree with this point, which is true for everything, including the Directors' nomination process. If we decide at one point in time to change the rules, then we will. Until those rules have changed, we will carry on as before.

As I said earlier, we will not have a Summing Up of this discussion, at least not in the traditional sense. I would like to make closing remarks of my own that could be useful for the purpose of external communications. What I am prepared to do is give you there remarks, which could thereafter be circulated to Directors for comment. The remarks would be released on my behalf, although they would cover the discussion as a whole.

Mr. Bakker supported the Chairman's proposed approach, but asked for comments from the General Counsel on the questions posed earlier.

The General Counsel (Mr. Hagan), in response to Directors' comments and questions, made the following statement:

There were two specific sets of questions that were addressed to me. The first set, posed by Mr. Bakker, Mr. Claveranne, and now also by Ms. Lundsager, related to the recommendation made by the IEO that all Executive Directors be elected, which would discontinue the current framework whereby the members with the five largest quotas appoint their own Executive Director. I think it is important to recognize that such change would require an amendment to the Articles of Agreement. This issue came up, as Directors may remember, with the establishment of the euro and the question concerning the ability of the European chairs to consolidate under one chair. It was recognized that these members not only had the right but the obligation to appoint their own chair, so this is something that would require an amendment of the Articles of Agreement.

A second point relates to Mr. Bakker's question on the legislative history behind this provision. We had a chance to quickly look into the background. The origin of this dates back to the Keynes Plan in 1943. I quote from his proposal, that the larger quotas should be entitled to appoint a member individually and those with smaller quotas would, to use the word, appoint the remainder. The concept gained greater certainty in the Joint Experts Report in Atlanta the following year, where it was determined that this would apply to the members with the five largest quotas. Thereafter, at the Bretton Woods Institutions conference, the distinction was made between appointed Executive Directors and elected Executive Directors.

It is clear from the legislative history that this was seen as a privilege for these five members, in two senses. First, when the Fund was established, the Executive Board only consisted of 12 members, so unless the members with the five largest quotas had this entitlement, it was not necessarily clear that they would have adequate voting power to actually appoint/elect their own Director, because it was such a small Board. With a larger Board, it would become more feasible.

Second, as a legal principle, there is an important distinction between elected Executive Directors and appointed Executive Directors. As Mr. Kiekens has pointed out, Executive Directors are all officers of the Fund. However, in terms of security of their tenure, an elected Executive Director has complete security until the end of his term. An appointed Executive Director can be replaced by the member appointing him at any time.

I could not find any evidence of a motivation that goes along with Mr. Bakker's point, which was that the requirement of an appointment was designed to safeguard against the excessive accumulation of voting power in a chair. I have not seen any of that in the legislative history. If we did amend the Articles of Agreement, as Ms. Lundsager has pointed out, we may need to address this possibility in the election rules by perhaps placing a cap on the amount of voting power that could be amassed in one chair, but that is something that would have to be discussed.

A second issue was raised by Mr. Claveranne, who has asked what guidance the Articles of Agreement provide on the concept of executive and supervisory authority, and I know that was an important feature of this discussion. I think it is fair to say that the framework for the Articles is an extremely flexible one. It is very fluid, and basically it is designed to enable the Fund to evolve over time, depending on the changing environment. I think it is best to analyze the Board's responsibility in terms of its relationship with the two other organs of this institution, the Managing Director and the Board of Governors.

When you look at the relationship with the Managing Director, although the Articles provide that the Executive Board conducts the business of the Fund, it then goes on to say that the Managing Director will conduct the ordinary business of the Fund under the direction of the Executive Board. The natural question is then at what point does the business become sufficiently ordinary that it is essentially being conducted by the Managing Director. The Board, in its wisdom, has refrained from giving a formal interpretation of that provision. What it has done is through the years is to adopt general decisions and practices that have moved that line. For example, until 1991, all technical assistance requests had to be approved by the Executive Board. Thereafter, the Board decided that the Managing Director should handle those requests from members. There are also circumstances where the Board has taken back authority from the Managing Director. Traditionally the Managing Director had exclusive authority to negotiate all programs, and essentially the Executive Board only had its say at the very end of the process. During the Asian crisis, there was a concern expressed that the Board was presented with a kind of fait accompli. Thus, the Board adopted the exceptional access policy that required some prior consultation.

The second relationship is between the Executive Board and the Board of Governors. I think this is very relevant for the discussion on the Council. It is clear that the Articles of Agreement contemplate there would be a delegation of authority by the Board of Governors to the Executive Board. In fact, as soon as the Articles were signed, all powers that the Board of Governors could delegate were delegated to the Executive Board. There are certain ones that cannot be delegated—e.g. quota increases—but most powers can be delegated.

Theoretically, one could imagine that the Board of Governors could revoke its earlier delegation of some or all of its powers to the Executive Board, but if a Council is not introduced, any such revocation is very unlikely given that a body of 185 Ministers would not be a particularly efficient decision-making body. However, when the concept of a Council is introduced, this issue does become relevant. In fact, under the Articles, it is specifically recognized that, if a Council were to be established, then there would be a possibility that some of the powers delegated to the Executive Board would be transferred to the Council. Thus, when discussing the possibility of a Council, a clear question is what powers would be shifted from the Board to the Council. Given that a Council would be a superior body

> relative to the Executive Board, one could imagine that decisions of general applicability would be adopted by the Council, but their application in specific cases would be done by the Executive Board. For instance, the 2007 Surveillance Decision could be adopted by the Council, but the Article IV consultation process for individual countries will be done by the Board. Clearly, it is premature to discuss this possibility. All I would point out is that it is difficult to talk about the Council without having a discussion about the implications of the Council's legal responsibilities on the legal responsibilities of the Board.

Mr. Fried stressed that Managing Director's concluding remarks should clearly establish that they were being made by the Chairman of the Board, to reflect the fact that the statement is being made on behalf of the institution as a whole.

Mr. Shaalan suggested that the remarks could be presented as a joint statement of the Managing Director and the Board.

Mr. Bakker asked for confirmation that the provision for the appointment of Executive Directors is intended not only as a safeguard for large members, but also for small members, because requiring the election of all Directors would necessitate additional safeguards to guarantee the voice and representation of small countries in the Board.

The General Counsel (Mr. Hagan) responded that the legislative history indicates that the appointment provision was a safeguard for members with large quotas. There was no evidence to suggest that it was also a safeguard for members with smaller quotas.

Mr. Bakker recalled the General Counsel's point that a move to all-elected Directors would require additional safeguards, e.g. some form of a cap, to maintain the position of small countries in the Board.

Mr. Moser generally agreed with the Chairman that rules should not be changed until there is agreement on the full range of governance reforms, but given the comments made by the External Audit Committee, felt that more formal Board involvement in the selection of the Secretary and the Director of the Finance Department might be appropriate.

The Chairman understood Mr. Moser's point, but noted that the comments of the External Audit Committee were its own and not a decision of the Board. He would consult the Board on those appointment, although that would continue to be done on an informal basis until a decision is taken to alter current practices.

The Chairman presented a concluding statement, which was subsequently published as a joint statement of the IMF's Executive Board and Managing Director (Press Release No. 08/121), as follows:

> The Executive Board and Management welcome the IEO report as a very useful contribution to their efforts to help strengthen the Fund's governance. The IMF has moved positively to undertake this kind of assessment—a move that places the Fund at the forefront of multilateral organizations.
>
> The IEO report is part of an ongoing process to strengthen the IMF's governance framework. It builds upon the recently approved reforms of quotas and voice now being implemented, and makes recommendations for further strengthening the institution's governance. In particular, the report has raised important questions in the following key areas:
>
> - How to increase clarity on the respective roles of the IMF's different governance bodies;
> - How to ensure effective ministerial and Executive Board involvement in the institution's decision-making processes;
> - How to strengthen the framework of management accountability, recognizing that this is an area where work is already underway.
>
> It is important to recognize that many of the issues raised by the report are complex, interrelated, and need to be discussed holistically. They will take time to address.
>
> The report's findings should thus be seen as the beginning of a broader discussion.
>
> This discussion will require the engagement of all parties at many different levels—involving not only the Executive Board and Management, but also the Fund's membership and other stakeholders more broadly.

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

APPROVAL: September 22, 2008

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Secretary