

**FOR  
AGENDA**

SM/10/182

July 7, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **IMF Governance Reform**

Attached for consideration by the Executive Directors is a paper on IMF governance reform, which is tentatively scheduled for discussion on **Wednesday, July 28, 2010**. Issues for discussion appear on page 14.

The staff proposes the publication of this paper after the Executive Board completes its discussion, together with a PIN summarizing the Executive Board's discussion.

Questions may be referred to Mr. Teja (ext. 34520) and Mr. Goyal (ext. 36875) in SPR; and Mr. Leckow (ext. 34799) and Mr. Eastman (ext. 36884) in LEG.

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads



# INTERNATIONAL MONETARY FUND

## IMF Governance Reform

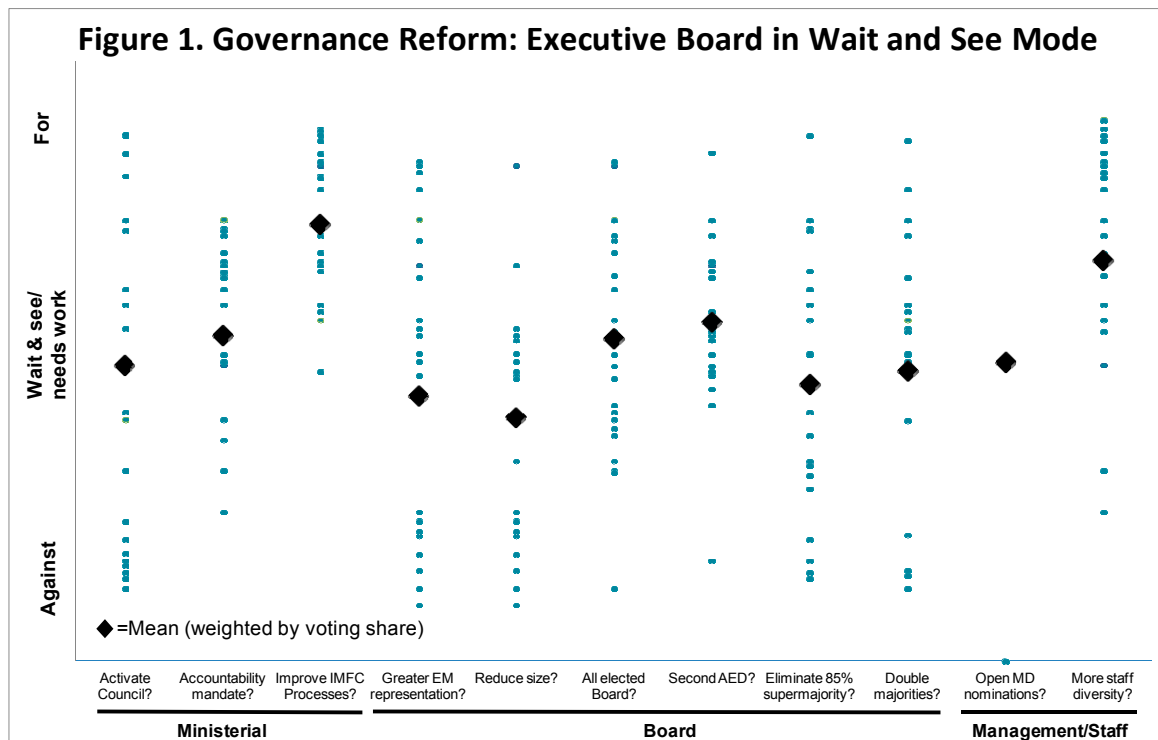
Prepared by the Strategy, Policy, and Review Department and the Legal Department

Approved by Reza Moghadam and Sean Hagan

July 7, 2010

### I. INTRODUCTION

1. ***The state of play.*** The broader governance reform debate—which goes beyond quotas to issues such as engagement by high-level policymakers, Fund management selection, Board structure, rules and accountability—has not got very far in garnering a consensus at the Executive Board. This is the case even though, in political circles, including the IMFC, and in civil society, expectations are high that the institution will tackle reforms key to its long-term effectiveness and legitimacy. The impasse reflects many factors. Partly it is a matter of not being convinced that governance is nearly as important as quota shares, partly of disagreement over the specifics of various proposals, and partly of concern that the conflation of quotas with governance—the “package approach”—risks delaying the pivotal quota rebalancing exercise, scheduled to be completed before January 2011. On a range of issues, Directors have reserved judgment, expressing “openness” but no clear support for any major initiative, until a later stage when decisions will need to be made (Figure 1).



2. ***Moving ahead.*** If the discussion is to make any headway, it will be necessary to not only converge on specific reform proposals but also to put to rest concerns about the package approach. This paper lays out the main governance issues, while putting forward variants of reform proposals that might command broader support. It takes as given that, even if quota reform has its own logic and deadline, this does not preclude parallel consideration of—and possibly decisions on—governance reforms, which can help make the case to domestic and international audiences that a broader reform of the Fund is underway.

3. ***Scope.*** This paper discusses all of the governance issues—other than quotas—that were outlined in Table 1 of the *Executive Board Progress Report to the IMFC on the Reform of Fund Governance* (April 2010). For convenience, these are reproduced in the table below as items B-D. As such, the paper focuses on three broad areas:

- ***Ministerial engagement and oversight.*** Although effective engagement of senior policy-makers in the work of the Fund is seen to be crucial, the mechanism for such engagement remains controversial. This paper does not reprise the divisive proposal to activate the ministerial-level “Council” that could assume many of the responsibilities exercised by the Executive Board. Rather, it considers a different approach: the establishment of a ministerial-level organ whose remit would consist primarily of decisions that are presently reserved for the Board of Governors along with a few strategic issues under the purview of the Executive Board. By design, most of these decisions would be by special majority. The new organ would also provide broad institutional oversight. Its establishment would entail amending the Articles.
- ***Board composition, size, and decision making.*** Previous discussions have concluded that the current size of the Executive Board provides a reasonable balance between representation and efficiency, and that downsizing would be counter-productive. Nevertheless, many sense inadequate emerging market and developing country (EMDC) representation at the Board—a situation that may not change much even after the upcoming quota rebalancing. Given the principle of voluntary constituency formation based on quotas and the inertial forces at work, incentives for change in constituencies and their heads may need to be considered. These include shifting to an all-elected Board (no appointed Directors) and providing for a second Alternate Executive Director for multi-country constituencies (without increasing the size of Directors’ offices). A shift to more inclusive forms of decision making, such as double majority rules, has not commanded broad member support, mainly out of concern for timely decision making. Reducing the threshold for special majorities also has not commanded broad support, as it would diminish the capacity of *several* groups—and not just the largest shareholder—to form blocking minorities and force a more broadly-based consensus.

**Table 1. Key Elements of Governance Reform (as outlined in the *Executive Board Progress Report to the IMFC: The Reform of Fund Governance*, April 2010)**

<p style="text-align: center;"><b>A. Quota and Voice</b></p> <ul style="list-style-type: none"> <li>• Size of the quota shift: whether 5 percent or more</li> <li>• Re-allocation of shares: <ul style="list-style-type: none"> <li>• Group: dynamic EMDCs/all under-represented/EMDCs as a group</li> <li>• Definition of dynamism</li> <li>• Allocation mechanism: ad hoc or to all on the basis of calculated shares (selective)</li> </ul> </li> <li>• Formula: <ul style="list-style-type: none"> <li>• Use current formula for now and re-visit the formula in due course</li> <li>• Work on improving formula now</li> </ul> </li> <li>• Size of overall quota increase</li> <li>• Protecting the voting power of LICs—modalities (e.g., ad hoc increase, basic votes)</li> </ul>
<p style="text-align: center;"><b>B. Ministerial Engagement and Oversight</b></p> <ul style="list-style-type: none"> <li>• IMFC reforms <ul style="list-style-type: none"> <li>• Agenda-setting process</li> <li>• Inclusive leadership model</li> <li>• Meetings: more informal, conducive to interaction and dialogue</li> </ul> </li> <li>• Decision-making body: activate Council?</li> <li>• Accountability mandate</li> </ul>
<p style="text-align: center;"><b>C. Executive Board: Composition, Size, Role and Decision Making</b></p> <ul style="list-style-type: none"> <li>• Composition</li> <li>• Size</li> <li>• Appointments versus election of Executive Directors</li> <li>• Second Alternate Executive Director for multi-country constituencies</li> <li>• Roles: clear delineation of responsibilities</li> <li>• Voting rules: reduce special majorities (70–85 percent)?</li> </ul>
<p style="text-align: center;"><b>D. Management and Staff</b></p> <ul style="list-style-type: none"> <li>• Management selection process</li> <li>• Staff diversity</li> </ul>

- ***Management selection and staff diversity.*** The paper proposes options to promote open and transparent management selection without regard to nationality. Importantly, it is proposed that the selection of the Managing Director be made by the new ministerial-level organ and require a decision of 70 percent of the total voting power. Enhancement of staff diversity along all dimensions—nationality, education, experience, gender—is also discussed.
4. ***Next steps.*** If the Board’s discussion of this paper yields progress in finding common ground, staff could prepare a follow up paper that refines proposals for consideration in August/September, with a view to converging on measures that complement the core quota reform. In any event, the work program envisages that a status report of the Managing Director to the IMFC on quota and governance reform would be prepared ahead of the Annual Meetings.

## II. ENHANCING MINISTERIAL ENGAGEMENT AND OVERSIGHT

5. ***The discussion so far.*** A high degree of political engagement and ownership by senior policymakers is crucial to the effectiveness and legitimacy of an institution such as the Fund, especially in times of crisis when concerted and coordinated action is needed. However, there is a widespread sense that the IMFC has not been at the center of such engagement, including during the crisis, and that its role must go beyond the notings and urgings of its communiqués. Many members agree with the finding of the Trevor Manuel report that, to focus ministerial attention and institutionalize engagement, quota rebalancing would need to be supplemented with explicit decision-making responsibility for ministers via the activation of the high-level Council envisaged in the Articles. Others, such as Adams and Sadun (*Financial Times*, August 16, 2009), have called for a more far-reaching variant of the Council that covers all IFIs. The skeptics have countered that transferring decisions from a resident Board, with knowledge of institutional processes, to ministers and governors who do not have the time or inclination to engage on global issues, would weaken consensus building as well as oversight of management; instead, they favor improving IMFC processes, such as communiqué drafting, more informal sessions, and more focused plenary meetings. Between the high ambition of the Council and the banality of procedural reforms, there has been little meeting of minds. Is there a middle ground?

### A. The “International Monetary and Financial Board”: A New Proposal

6. ***The basic idea.*** It is proposed that a new ministerial-level organ—for illustrative purposes called the “International Monetary and Financial Board” (IMFB)—be established under the Articles that would resemble the IMFC today, except that it would also have certain powers of decision-making. With respect to decision-making authority, the Articles would be amended to permit the Board of Governors to delegate to the IMFB certain decisions that are exclusively reserved for the Board of Governors under the existing Articles. In addition, a few powers currently residing with the Board—such as the selection

of the Managing Director and strategic aspects of global surveillance—would be transferred to the IMFB. The Executive Board would continue its central role in conducting the business of the Fund. As under the existing Articles, the legal framework would be sufficiently flexible to allow for the Board of Governors to shift the allocation of responsibilities among the various organs of the Fund over time. Importantly, the Board of Governors would retain its power to delegate decision-making authority, and to take it back.

7. ***Scope of decisions.*** To hold ministerial attention, IMFB decisions would need to be of a sufficiently high and strategic importance. At the same time, decisions should not demand such intimate knowledge of institutional processes as to overlap with the comparative advantage and competencies of the Executive Board (to whom the Board of Governors, the apex decision-making entity, has delegated a broad range of powers). A way forward would be to incorporate the following elements into the Articles:

- ***Board of Governors' Decisions.*** A number of decisions that are reserved exclusively for the Board of Governors could be delegated to the IMFB, including changes in quotas, and the allocation and cancellation of SDRs (see Table 2; in addition, Annex I shows all the powers of the Board of Governors, including those that would *not* be delegated under the proposal). As a smaller body that meets more frequently than the Board of Governors, the IMFB would provide a forum for real debate and deliberation of decisions: it has been some time since this has happened at the level of the Board of Governors. These decisions, warranting broad political backing, would be taken by the relevant majorities (in most cases, by special majorities) already envisaged under the existing Articles.
- ***Managing Director.*** The IMFB would make this key political decision, already widely understood to be taken in capitals, and decide on removal from office. Since the Articles explicitly reserve the appointment and dismissal of the Managing Director for the Executive Board, this would require amending the Articles. The opportunity of the amendment could also be used to change the majority required to elect and dismiss the Managing Director from a majority of votes cast to 70 percent of the total voting power to ensure broad support. It is worth noting that, in a number of other international financial institutions (e.g., all of the regional development banks), the chief executive officer is selected by a ministerial-level organ. As is the case currently in the Fund and these other organizations, the Managing Director would remain the chair of the Executive Board.
- ***Strategic direction.*** The IMFB would provide strategic direction in two additional ways. First, with respect to those matters that continue to fall within the jurisdiction of the Executive Board, the IMFB would provide guidance to the Executive Board of a non legally-binding nature, consistent with the current IMFC framework. In this connection, the IMFB would be expected to articulate a strategy to tackle global crises when these occur (e.g., providing guidance on the coordination of policy

responses and on the establishment of extraordinary lending facilities and processes). Second, the Board of Governors would transfer from the Executive Board to the IMFB decision-making authority in two areas. The first would be decisions regarding the sale of gold, which is subject to a special majority. The second would be decisions establishing general surveillance policy (i.e., for multilateral and bilateral surveillance). As noted below, consideration could also be given to amending the Articles to require such decisions to be adopted by a special majority. It would also seem appropriate for the IMFB to discuss specific multilateral consultations and spillover reports insofar as they have important systemic implications.

**Table 2. Powers conferred directly on the Board of Governors  
that could be delegated to the IMFB**

<b>Article</b>	<b>Section</b>	<b>Subject</b>	<b>Special Majorities (Proportion of Total Voting Power)</b>
III	2(a)	Adjustment of quotas	85 percent (see Art. III, Section 2(c))
III	3(a),(d)	Prescription of medium of payment for additional subscription	70 percent, except for the determination of a period and the specification of currencies under Section 3(a)
XVIII	2(a), 4(a),(d)	Allocation or cancellation of special drawing rights	85 percent
XVIII	2(b), 4(a),(d)	Determination of rates at which allocations and cancellations are to be made	85 percent
XVIII	2(c), 4(a)(d)	Determination of duration of basic period, intervals for allocations or cancellations, and dates as of which quotas and net cumulative allocations are to be basis for allocations or cancellations	85 percent
XVIII	3, 4(a)(d)	Change in rates or intervals of allocation or cancellation or in length of basic period, or starting new basic period	85 percent (except decrease in rates of allocation)



Article	Section	Subject	Special Majorities (Proportion of Total Voting Power)
XVIII	4(c)	Request Managing Director to make proposals on SDR allocations	Majority of the votes cast
XXVIII		Approval of proposed amendments of Articles to then be circulated to members	Majority of the votes cast

8. ***Oversight.*** Although individual Directors are in some sense accountable to their constituencies, the Executive Board as a whole is accountable only to the Board of Governors—arguably too diffuse a body to exercise any real oversight. In fact, the Board of Governors has not exercised any such oversight in recent memory. The IMFB, by contrast, could oversee and bring a measure of accountability to the Executive Board’s exercise of powers that have been delegated to it by the Board of Governors. Such oversight would be undertaken ex-post (i.e., it would review actions already taken by the Executive Board) and would take the form of reports from the IMFB to the Board of Governors on the Executive Board’s work. Clearly, this should not be a pro-forma bureaucratic exercise, but should focus on selected issues and only as and when needed. However, the IMFB would not have the legal authority to interfere with, or reverse, the Board of Governors’ delegation of authority to the Executive Board; rather, that authority would remain with the Board of Governors.

9. ***Implications.*** The above approach seeks to avoid an overlap in the powers of the IMFB and the Executive Board and to preserve a strong Executive Board that is essential to the effective functioning of the institution. As is the case currently with regard to the IMFC, much of the work in preparing proposals and examining issues raised by the IMFB would, as a practical matter, need to be done by the Executive Board.

10. ***Voting majorities.*** A key feature of the proposal is its reliance on special majorities for many of the decisions to be taken up by the IMFB, reflecting the need for broad consensus on strategic issues. In fact, special majorities already apply for most of these decisions (see Table 2). In the proposal, three categories of decisions can be distinguished:

- First, as noted, the Articles would confer upon the IMFB the exclusive authority to appoint and dismiss the Managing Director and would specifically provide for this decision to be adopted by 70 percent of the total voting power.
- Second, the Board of Governors could delegate a number of decisions to the IMFB that already require a special majority under the Articles. Some of these powers are currently reserved to the Board of Governors (as noted in Table 2, virtually all of these decisions require a special majority), while another has been delegated by the

Board of Governors to the Executive Board (i.e., gold sales). These decisions would continue to require the same special majority at the IMFB.

- Finally, the Board of Governors would transfer to the IMFB a limited number of other decision-making powers that currently reside with the Executive Board and do not require a special majority. As noted above, these would consist of decisions establishing general policy on bilateral and multilateral surveillance. The proposed amendment of the Articles could provide that these decisions would also require a special majority (e.g., 70 percent of the total voting power). To the extent that this approach is taken, and consistent with the existing legal framework, the applicable special majority would continue to apply even if, in the future, the Board of Governors transferred this authority back to the Executive Board.

11. ***Voting.*** Split voting would be permitted in the IMFB. However, as is the case in the Executive Board, decisions would be expected to be taken by consensus.

12. ***Size and composition.*** Aligning the size and composition of the IMFB with the Executive Board allows for consistency between the two organs, and avoids conflicting constituency groups. Thus, each member that appoints an Executive Director and each member or group of members that elects an Executive Director would be required to appoint:

- One Member of the IMFB who would be a Governor of the Fund, Minister in the Government or a person of comparable rank;
- One Alternate to the IMFB Member, who would participate in meetings when the Member is not present; and
- Three Associates, including the Executive Director. The number of Associates could be changed by the IMFB with a special majority of 70 percent of voting power. IMFB Members, Alternates and Associates would remain in office until a new appointment is made or the next regular election of Executive Directors, whichever is earlier.

13. ***Constituencies.*** It would be up to each constituency to determine how its appointee is chosen. Multi-country constituencies would need to establish processes for engagement in preparing for IMFB meetings, as they to some extent already do for IMFC meetings and more routinely do for Executive Board meetings. However, decision making at the IMFB level would raise the stakes in such coordination.

14. ***Chair.*** The Chair would be selected from among the IMFB Members and would not be the Managing Director. He/she would prepare the agenda—in consultation with other IMFB Members, the Executive Board, and the Managing Director—and would be assisted in the process by the Executive Board and the Managing Director. While the Chair would prepare the agenda, those consulted could also have matters placed on the agenda for consideration. Given the widespread desire to draw more input directly from capitals, the

deputies of IMFB Members could be given a more explicit role in setting the agenda, requiring earlier consultation than is currently the case.

15. **Meetings.** As is currently the case with the IMFC, the IMFB would meet regularly, at least twice a year; the Managing Director would participate but not vote. More frequent meetings could be convened as necessary, and a process for a vote without a meeting would need to be established, wherein the Executive Board and the Managing Director could request a vote without a meeting of the IMFB. Consistent with the approach taken in the Board of Governors, meetings of the IMFB would require a quorum consisting of a majority of IMFB Members, representing not less than two-thirds of the total voting power.

16. **Amending the Articles.** As noted above, the Articles would need to be amended to establish the IMFB. Unlike the Council, the IMFB would be established immediately upon the entry into force of the amendment (i.e., a subsequent decision to activate the IMFB would not be necessary). The provisions on the Council would be repealed, and the IMFC would be abolished upon the establishment of the IMFB. The delegation of authority from the Board of Governors to the IMFB would be made when the amendment to the Articles enters into force.

17. **Is an IMFB worth the trouble?** On paper, the scope of decisions allocated to the IMFB does not seem great. While many issues in Table 2 may not be the stuff of intense ministerial engagement, the IMFB's remit over surveillance (e.g., spillover reports, multilateral consultations, surveillance policies) is arguably a crucial and engaging one for senior policymakers, as is the responsibility for selecting the Managing Director. Moreover, the strategic guidance the IMFB would provide, for example on crisis response, would now come with the heft of oversight of the Executive Board. Whether this is enough to warrant amending the Articles, or goes too far, is a key issue for discussion.

## B. IMFC—Improving the Status Quo

18. **Fallback.** If consensus is lacking on the establishment of the IMFB, consideration could be given to further reforms of the IMFC. Some reforms have already been instituted, or attempted, with partial success. These include a shorter plenary session, more time devoted to restricted sessions (IMFC-G20 dinner, informal breakfast, early warning exercise), and longer lead times in the preparation of the communiqué. Given the reforms that have already been implemented, there are few additional changes that could be considered. Future reforms could build on earlier efforts to promote ministerial participation and dialogue:

- **Term limits.** A term limit for the IMFC chair of up to 2 years would facilitate rotation and ownership. An overlapping period of 6 months could be considered for the incoming chair to ensure continuity and a smooth transition. Such a reform would serve much the same purpose as a troika model, which drew mixed support. The improvement over the troika model is the shorter commitment period (versus 4–6 years under a troika) and relative simplicity (versus the complexity associated with

the troika model in choosing between country, constituency, or individuals as chairs). (These term limits might also usefully be applied to the chair of the IMFB.)

- ***Deputies' meetings.*** Deputies could play a more active role in preparing the ground for the IMFC meeting by having matters placed on the agenda and beginning work on the communiqué. This would necessitate meeting earlier in the process. It would also call for even earlier circulation of background materials such as the draft communiqué. Recent experience with earlier circulation of the draft communiqué has widely been viewed as positive, allowing for improved discussion, with adequate time to formulate constructive responses.

### C. Broader Structures for the Long-Run

19. ***Coordinated global governance.*** Regardless of whether the IMFB is established or the IMFC is reformed, an issue for the longer term is coordination among the various ministerial fora—such as the IMFC and G-20—that deal with inter-related and often overlapping issues. Given the importance of cooperation in an increasingly interconnected world, different fora provide opportunities for dialogue and collaboration, but at the possible expense of repetition or conflicting messages. As experience is gained with existing arrangements, the broader issue of coordination and rationalization may need to be re-visited at a high level. Increased cooperation across the various fora could be envisaged. In addition, an over-arching decision-making body—as under the Global Economic Coordination Council proposed by Adams and Sadun (2009)—that internalizes issues and provides guidance could be considered, depending, among other things, on the need for engagement at the leaders' level and the extent of specialization and division of labor.

## III. EXECUTIVE BOARD: SIZE, COMPOSITION, AND EFFICIENCY

20. ***Overview.*** While there is consensus for a strong Executive Board that brings the voice and interests of members to and oversees the technical work of management and staff, there are differences of view as to the appropriate size—and especially the composition—of the Board. The distribution of responsibilities, including with respect to the peer review exercised by the Board in bilateral surveillance, is broadly seen as satisfactory by Executive Directors (but less satisfactory as seen by the Trevor Manuel report). To enhance efficiency, some work practices have been modernized, with greater use of lapse of time procedures and improved work program planning. Discussions are underway to further save time and increase effectiveness by upgrading meeting preparations and procedures.

21. ***Size.*** A desire to enhance the relative representation of EMDCs has been the main rationale for proposals to reduce the size of the Board from the ad hoc 24 (agreed every two years with a decision of the Board of Governors by 85 percent of the total voting power) to the 20 envisaged in the Articles: a small reduction in the size of the Board would not meaningfully increase effectiveness, but it would disrupt the inertial forces holding together

the status quo in current constituencies. In particular, proponents of a reduction in Board size expect it would lead to the consolidation of advanced country chairs. However, this outcome cannot be taken for granted: it is possible that it would be the smaller EMDCs that end up consolidating. As such, and absent side deals, members are unlikely to agree to a change in Board size—either to revert to 20 or to amend the Articles to regularize 24 (and so remove the threat of cutting back to 20 every two years). A more ambitious cut to the 10-12 that would materially raise efficiency, but reduce representation, is even more politically remote.

22. ***Composition.*** Rather than forcing consolidation through a reduction in the size of the Board, re-composition could be facilitated by moving to an all-elected Board and allowing a second Alternate Executive Director for multi-country constituencies. A move to an all-elected Board would require an amendment of the Articles that would eliminate the current dual system of appointed and elected Executive Directors. It would remove the “mandatory isolation” of appointed chairs and provide for greater scope for voluntary constituency formation. As such, it may make it easier to accommodate the changes to Board composition that quota reform may set off.

23. ***All-elected Board.*** The incorporation of an all-elected Board into the Articles would need to include safeguards against the undue concentration of voting power. These safeguards have historically been set out in the rules governing the election of Executive Directors, which seek to distribute voting power among elected Directors in a manner that avoids excessive disparity. A move to an all-elected Board would involve allowing members that currently appoint a Director to participate in the regular election. It raises a question as to what limits should be imposed on the concentration of votes cast by individual Executive Directors, and what degree of flexibility should be given to the Fund to adjust them.

- ***Present system.*** Under the election rules set forth in the Articles (and supplemented by regulations adopted by the Board of Governors), maximum and minimum limits—generally nine and four percent respectively—are imposed on the percentages of votes that can elect an Executive Director. These percentages are applied to the votes of members that are eligible to participate in the election (“eligible votes”) and, in particular, exclude the votes of members that must appoint an Executive Director. So as to provide flexibility, these rules may be modified by the Board of Governors (by a majority of the votes cast) and the Fund has consistently used this flexibility to enable Directors to be elected by less than four percent of the eligible vote. (The election framework is described in Annex II.)
- ***A modified system.*** With an all-elected Board, the percentage limits would be applied to the total voting power of the Fund as all members (except those whose voting rights have been suspended) would be eligible to participate in the election.
  - ***Upper Limit.*** One approach would be to limit the voting power of multi-country constituencies to 6 percent of the total voting power, which

corresponds to the 95<sup>th</sup> percentile of the current distribution and is close to the existing limit for an elected chair (9 percent of the eligible votes, which is equivalent to 5.54 percent of the total voting power). While this option would, based on current voting power, preclude the two largest members from forming constituencies with others, it would allow flexibility for the other members currently appointing to do so. That said, such a limit would preclude the significant consolidation of advanced economy chairs that many have called for. A higher limit, say 9 percent of the total voting power, would allow for some consolidation, albeit with a potentially more skewed distribution of voting power.

- ***Lower limit.*** A lower limit of about 2 percent of the total voting power could be established, which corresponds to the 5<sup>th</sup> percentile of the current distribution and is somewhat lower than the limit of 4 percent of eligible votes that presently applies (2.46 percent of the total voting power).
- ***Flexibility.*** Whatever the limits established, it would be important that the Fund retain the flexibility to adjust them to take into consideration, inter alia, possible future changes in the size of the Executive Board. The authority to make such adjustments would remain with the Board of Governors, since the Governors participate in the election of Directors. Moreover, giving this power to the IMFB could create a perception of conflict of interest, given that the composition of the IMFB would be based on that of the Executive Board. Consideration could also be given to requiring that all adjustments to the voting rules be approved by 70 percent of the total voting power.

24. ***Second Alternate Executive Director.*** This could facilitate re-composition of multi-country constituencies by giving members greater flexibility in allocating the Executive Director and Alternate Executive Director positions, including by attracting others to join their constituencies. Even if used to preserve existing constituency groupings by allocating such positions to rising members, it would have the beneficial effect of giving rising members more prominent positions at the Board. Once the 2008 quota and voice reform becomes effective, the Articles will authorize the Board of Governors to adopt rules enabling an Executive Director elected by more than a specified number of members to appoint two Alternates. While the initial rules (applicable to the first regular election of Directors that follows the entry into force of the proposed quota reform amendment) will allow only those Directors elected by at least 19 members to appoint two Alternate Directors, this threshold could be lowered by the Board of Governors in subsequent elections. With no increase anticipated in the size of Directors' offices, the proposal would be broadly budget neutral.

#### IV. MANAGEMENT SELECTION AND STAFF DIVERSITY

25. **Background.** Calls for an open, transparent, and nationality-blind selection process for the Managing Director have intensified. There is a question whether the procedures put in place in 2007 will be fully implemented, given the informal understandings among the major shareholders on the nationalities of the heads of the major IFIs (e.g., European at the Fund, US at the World Bank, Japanese at the Asian Development Bank, etc.). If there is anything less than open or transparent in the existing process, it is this.

26. **A truly open process.** Because the problem lies in informal understandings rather than formal processes (which indeed are open to all), it is critical that there be a clear political-level commitment—at least at the level of the IMFC, or the IMFB were it to be established—to forswear all existing informal understandings regarding nationality. The main obstacle to such an agreement has been the need to coordinate it across the IFIs and to obtain the political commitment of the major shareholders to do so. Of course, this does not rule out the possibility that a European could be selected as the next Managing Director. Rather, there would no longer be a presumption that this would be the case. Separately, a transparent process also requires that the nomination process be as open as possible. To this end, the Executive Directors' Working Group on Management Selection recently proposed broadening the pool of those who nominate qualified candidates to include Fund Governors. Some have suggested broadening this pool to former Fund Governors, Alternate Governors and Executive Directors—all of whom may be expected to know the institution well.

27. **Staff diversity.** As the Executive Board noted in its April 2010 report to the IMFC on Fund governance reform (SM/10/89), diversity among staff—by nationality, gender, education, and experience—brings many benefits. The introduction of the diversity scorecard in 2009 has provided management with the tools to encourage greater diversity among the staff, and coincided with some improvements, especially the share of professional staff (A9-B5) from under-represented regions and women in senior staff positions (Figure 2).

28. **Significant challenges.** Representation at the most senior staff levels still falls significantly short of the associated benchmark for staff from under-represented regions and the diversity profile of the Fund's senior decision makers remains inadequate. As outlined in the 2009 Diversity Annual Report, the Fund has begun intensifying efforts to reach its medium-term goals, focusing especially on ensuring that qualified staff from under-represented regions are elevated to senior staff positions across the Fund. Additionally, training to develop awareness about diversity-related issues will continue, and promotion of diversity will be integrated further into the Fund's human resource policies.

Figure 2. Diversity Scorecard, 2009

DIVERSITY SCORECARD OVERALL SUMMARY						
<b>LEGEND:</b>						
<span style="color: red;">■</span>	Below 30% of Target	<span style="color: yellow;">■</span>	Between 30 and 70% of Target	<span style="color: green;">■</span>	Above 70% of Target	
IMF LEVEL RESULTS						
Diversity Performance Opportunity Areas	Target	2009Q1	2009Q2	2009Q3	2009Q4	% of Target Achieved (2009Q4)
Goal 1 - Share of Underrepresented Groups should be increased						76.7%
- Share of A9 - B5 level Staff from Underrepresented Regions	36%	25.4%	26.3%	27.0%	27.3%	75.9%
- Share of B level Staff from Underrepresented Regions	22%	12.8%	12.8%	13.3%	13.7%	62.4%
- Share of B level women Staff	20%	17.8%	18.1%	18.1%	18.3%	91.7%
Goal 2 - Level the Playing Field	100%					
Goal 3 - Membership should believe their Diversity concerns are being addressed	Between 70 and 100%	42.7%	42.7%	42.7%	42.7%	42.7%
Goal 4 - Full buy in to diversity objectives and strategies	Between 70 and 100%	59.1%	59.1%	59.1%	59.1%	59.1%

Source: 2009 Diversity Annual Report

## V. ISSUES FOR DISCUSSION

29. **Key points.** The elements of a quota and governance reform are only likely to emerge as the political bargaining process gathers momentum. To make progress in this regard, it would help if Directors were to state their views on the following points:

- Is the proposal to establish an IMFB a helpful compromise? In what specific way can it be improved? Alternatively, do Directors prefer procedural reforms to the IMFC?
- Should retention of current rules on Board size be accompanied by a move to an all-elected Board and provision for a second alternate Executive Director for multi-country constituencies? Are the bounds on chair size in ¶23 broadly acceptable?
- Should the Board call for the IMFC/IMFB to foreswear presumptions regarding nationality in the selection of the Managing Director and the Deputy Managing Directors? Would it also help to open up the nomination process for the former?



**ANNEX I. ARTICLES OF AGREEMENT: POWERS CONFERRED  
DIRECTLY ON THE BOARD OF GOVERNORS**

<b>Article</b>	<b>Section</b>	<b>Subject</b>	<b>Special Majorities (Proportion of Total Voting Power)</b>
II	2	Admission of new members	None
III	1	Quotas of members	None
III	2(a)	Adjustment of quotas	85 percent
III	3(a),(d)	Prescription of medium of payment for additional subscription	70 percent, except for the determination of a period and the specification of currencies under Section 3(a)
XII	1	Application of Schedule D	85 percent
XII	2(b)	Delegate authority to the Executive Board	None
XII	2(c)	Meetings of the Board of Governors	None
XII	2(f)	Establish procedures for vote without meeting	None
XII	2(g)	Adopt rules and regulations as may be necessary and appropriate to conduct the business of the Fund	None
XII	2(i)	Remuneration of Executive Directors and Alternates and the salary and terms of contract of service of the Managing Director	None
XII	2(j)	Appoint committees	None
XII	3(b)	Increase, decrease the number of elective Executive Directors Maintenance of number of elective Executive Directors	85 percent

<b>Article</b>	<b>Section</b>	<b>Subject</b>	<b>Special Majorities (Proportion of Total Voting Power)</b>
XII	3(d)	Issue regulations making changes in the proportion of votes required to elect Executive Directors under Schedule E	None
XII	3(j)	Adopt regulations under which members not entitled to appoint an Executive Director may send a representative to attend a meeting of the Executive Board	None
XVIII	2(a), 4(a),(d)	Allocation or cancellation of special drawing rights	85 percent
XVIII	2(b), 4(a),(d)	Determination of rates at which allocation and cancellation are to be made	85 percent
XVIII	2(c), 4(a)(d)	Determination of duration of basic period, intervals for allocations or cancellations, and dates as of which quotas and net cumulative allocations are to be basis for allocations or cancellations	85 percent
XVIII	3, 4(a)(d)	Change in rates or intervals of allocation or cancellation or in length of basic period, or starting new basic period	85 percent (except decrease in rates of allocation)
XVIII	4(c)	Request Managing Director to make proposals on SDR allocations	None
XXI	(c)	Determination of whether non-SDR participant can vote in the Committee on Interpretation on questions pertaining to SDR	None
XXV	(a)	Decision to liquidate SDR department	None
XXVI	2(c)	Compulsory withdrawal of a member	Majority of Governors having 85 percent

<b>Article</b>	<b>Section</b>	<b>Subject</b>	<b>Special Majorities (Proportion of Total Voting Power)</b>
XXVII	1(b)	Extension of temporary suspension of operation of provisions	85 percent
XXVII	2(a)	Liquidation of the Fund	None
XXVIII		Approval of proposed amendments of Articles to then be circulated to members	None
XXIX	(b)	Establishment of Committee on Interpretation	None
XXIX	(b)	Overrule of decision of Committee on Interpretation	85 percent
<i>Schedule</i>	<i>Paragraph</i>		
D	1(a)	Change in number of Associates in Council	85 percent

## ANNEX II. LEGAL FRAMEWORK GOVERNING REGULAR ELECTIONS<sup>1</sup>

The key aspects of the legal framework for the regular election of Executive Directors are as follows:

1. Article XII, Section 3(d) prescribes that regular elections of Executive Directors take place at two year intervals in accordance with the provisions of Schedule E as supplemented by Regulations adopted by the Board of Governors.
2. Although the Articles prescribe that only fifteen Directors shall be elected, Article XII, Section 3(b)(ii) authorizes the Board of Governors, by an eighty five percent majority of the total voting power, to increase or decrease -- from the default of fifteen -- the number of elected Directors for each regular election. The Board of Governors typically exercises the power under Article XII, Section 3(b)(ii) and has, since the regular election in 1992, increased the number of elected Directors by four to nineteen.
3. Members are generally free to organize and group themselves into constituencies of their choosing, subject to the following constraints: (i) the five largest members are required to appoint a Director, thus precluding those members from participating in the regular election; (ii) any member exercising the entitlement to appoint a Director under Article XII, Section 3(c) is also precluded from participating in a regular election, as are individual members in that member's constituency who agree to have the appointed Director cast the number of votes allotted to them;<sup>2</sup> (iii) the provisions of Schedule E which, inter alia, provide for the minimum and maximum proportion of votes required to elect Executive Directors (currently four and nine percent of the eligible votes respectively). However, Article XII, Section 3(d) authorizes the Board of Governors, in the context of each regular election, to issue regulations changing those proportions;<sup>3</sup> and (iv) any regulations the Fund deems appropriate to supplement the provisions of Schedule E.<sup>4</sup> The existing Regulations reflect the position that the Board of Governors has increased the number of elected Directors to nineteen, accordingly, the provisions of Schedule E are modified by the Regulations to reflect that fact.

---

<sup>1</sup> Prepared by the Legal Department.

<sup>2</sup> Article XII, Section 3(j)(ii).

<sup>3</sup> The power of the Board of Governors under Article XII, Section 3(d) to adjust these proportions can be understood in the context of the authority given the Board of Governors to increase or decrease the number of elected Directors under Article XII, Section 3(b)(ii).

<sup>4</sup> Article XII, Section 3(d). The Regulations adopted for the 2008 regular election of Executive Directors are set out in EBD/08/78, 7/18/08.

4. Each Governor eligible to vote in the regular election may nominate one candidate for election as Executive Director.<sup>5</sup> The “eligible votes” for an election refers to the aggregate votes of members participating in the election. Accordingly, the “eligible votes” excludes the votes of members who do not participate in a regular election, namely, those members who: appoint Directors under Article XII, Section 3(b)(i) or Article XII, Section 3(c); have joined a member appointing a Director under Article XII, Section 3(c); or have had their voting rights suspended.

5. The legal framework for regular elections can best be understood when considering the framework as it applies to a “non-contested” election (i.e. where the number of candidates equals the number of vacant seats) compared to a “contested” election (i.e., where the number of candidates exceeds the number of vacant seats). Specifically:

- a. **Non-Contested Elections:** In circumstances where the number of candidates equals the number of vacant seats, the Regulations typically include a provision that will deem all candidates to be elected, provided no candidate receives more than nine percent of the eligible votes.<sup>6</sup> In determining whether votes cast by a Governor raise the total of any candidate above nine percent of the eligible votes, the nine percent includes first, the votes of the Governor casting the largest number of votes, then the votes of the Governor casting the next largest, and so on, until nine percent is reached.<sup>7</sup> However, the Regulations adopted for each regular election also usually modify this aspect of Schedule E in the following way: If the votes cast by a Governor raise the total votes by a candidate from below to above nine percent, the Regulation deems those votes not to have raised the total votes from below to above nine percent of the eligible votes (thus allowing that Governor to be included in that constituency).<sup>8</sup>
- b. **Contested Elections:** In circumstances where the number of candidates exceeds the number of vacant seats, a ballot (and possibly subsequent ballots) may be required before nineteen candidates are elected. The process proceeds as follows:

- (i) In the first ballot, the nineteen persons receiving the greatest number of eligible votes will be elected, provided that no candidate who received less than four percent of the eligible votes shall be considered elected.<sup>9</sup> In the event nineteen

---

<sup>5</sup> This provision is typically included as Regulation 7(a) in the Regulations adopted for each regular election.

<sup>6</sup> This provision is typically included as Regulation 11 in the Regulations adopted for each regular election. Accordingly, it is possible in this situation that one or more candidates could be elected when having received less than four percent of the eligible votes.

<sup>7</sup> Schedule E, paragraph 4.

<sup>8</sup> This provision is typically included as Regulation 12 in the Regulations adopted for each regular election.

<sup>9</sup> Articles of Agreement: Schedule E, paragraph 2.

candidates are elected in the first ballot and the votes of one or more Governors did not contribute to the election of a candidate, the Regulations include a provision which provides that a Governor may designate an Executive Director who was elected, and that member's votes will be deemed to have counted toward the election of that Director (subject to the limitation that the designation does not raise the total votes for a candidate above nine percent as described in 5.a above). If nineteen candidates are not elected in the first ballot a second (and possibly subsequent) ballot(s) will be required.

(ii) If a **second ballot** is required, only those Governors who voted in the first ballot for a person not elected; and Governors whose votes for a person elected are deemed to have raised the votes cast for a candidate over the nine percent ceiling will participate in the second ballot.<sup>10</sup> The candidates in the second ballot will be those who were not elected in the first ballot except for the candidate who received the lowest number of votes in the first ballot, who will be ineligible for election.<sup>11</sup> However, if after eliminating the candidate who received the least number of votes in the last ballot, the number of remaining candidates equals the number of vacant seats, all candidates will be deemed elected.<sup>12</sup>

(iii) If, after the second ballot, nineteen persons have not been elected, **further ballots** shall be held on the same principles described in 5.b.(ii) above until nineteen persons have been elected, provided that after eighteen persons are elected, the nineteenth may be elected by a simple majority of the remaining votes, and that candidate shall be deemed to have been elected by all such votes.<sup>13</sup>

6. The Regulations adopted for each regular election, typically also establish, inter alia: the procedures applicable to the supervision of the election; the nomination and balloting procedures; and the effective date for the election (typically November 1).

---

<sup>10</sup> Articles of Agreement: Schedule E, Paragraph 3.

<sup>11</sup> Articles of Agreement: Schedule E, Paragraph 3.

<sup>12</sup> This provision is typically included as Regulation 8(g) in the Regulations adopted for each regular election.

<sup>13</sup> Articles of Agreement: Schedule E, paragraph 6.