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May 20, 2008

**Statement by Mr. Fried and Mr. Perrault on IEO Report on the Evaluation of Aspects of  
IMF Corporate Governance--Including the Role of the Executive Board  
(Preliminary)  
Executive Board Meeting 08/44  
May 21, 2008**

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 setup

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 Cippolone, 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.<sup>1</sup> 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.
- 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 EDs, 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.

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<sup>1</sup> 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.

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.