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May 20, 2008

**Statement by Mr. Kotegawa and Mr. Kihara 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**

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.