

The contents of this document are preliminary and subject to change.

GRAY/08/1610

May 20, 2008

**Statement by Mr. Gakunu and Mr. Aboobaker 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**

- 1. 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.*
- 2. 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*
- 3. 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

4. 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

5. 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.
6. 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

7. 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.
8. 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

9. 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.
10. 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.

11. 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.
12. 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.