GRAY/08/1613

May 20, 2008

Statement by Mrs. Mañalac and Mr. Duggan 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

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.

<u>Process</u>

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, prioritising 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.

<u>Objectives</u>

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 organisational 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.