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**Statement by Ms. Sucharitakul and Mr. Raman 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 a thought-provoking set of papers, and the External Audit Committee, the Managing Director and staff for their responses and clarifications.

The unique nature of this particular IEO Report cannot be sufficiently emphasized. Unlike previous reports, it is not clear that the Board is capable or even should be asked to discuss many of its findings or suggested remedial actions. This is mainly because many of the recommendations – especially those regarding the nature, work processes and composition of the Board, as well as the discussions on ministerial involvement in the Fund’s governance – are more the province of the Governors. Our responses to the Report, therefore, are very preliminary, providing an opportunity for discussion on the way forward, rather than representing any definitive position. It may also be self-serving for the Board to decide and discuss issues relating to fundamental changes in its own nature and role.

We also note that the IEO has not assessed quota and voice-related issues, for understandable reasons. Nevertheless, we would note that a large part of the governance weaknesses in the Fund are perceived to flow from an unrepresentative governance structure, a structure that will not change dramatically after the first round of reforms are implemented. As we said in the course of discussions on quota and voice, we saw the recent quota decision only as a first step with more work needed to ensure a continuous improvement in the representation of developing countries, many of whom remain under-represented at the Fund.

For purpose of discussion, we offer our comments on each of the broad areas of recommendation on the IMFC, Board and Management below.

Roles and Responsibilities of the Main Governance Bodies

We agree that greater **clarity** in the roles of Management, the Board and the IMFC could be helpful, if only to enhance the quality of discussion. However, we think these issues may be more apparent than real. Certainly, the IMFC tends to focus its discussion on points that could not be resolved at the Board, which we suppose makes a case for strong ministerial involvement. The Board, as staff have pointed out, generally build on the work that staff and Management have proposed.

In the case of greater **ministerial involvement**, we are not entirely sure how the IEO's proposal varies from the current practice. Certainly, they do not envision more frequent meetings, nor of changes to the IMFC's composition – in the event the Council were set up. As best as we can see, the main thrust seems to be for more systematic discussions of the Board's role as a whole, and assessment on whether it has been able to effectively carry out the business of the Fund. *We would appreciate a view on exactly how such mechanisms could be put in place, and whether the Articles of Agreement allow for oversight of that nature.*

Detailed Proposals on the Board

Role and Responsibilities of the Board

There seems to be some tension seen between the roles of the Board as an executive body and as a supervisory one. As we noted earlier, where greater clarity is possible, we agree that it would be welcome, though we think the Board has been relatively more focused on supervising Management, rather than being an executive body in the fullest sense of that term.. Still, this is an issue that possibly deserves consideration by Governors. However, we would caution that too rigid a demarcation of “supervisory” and “executive” brings its own set of risks. The practical policy experience of many Directors is an asset that the Fund has benefited from in the past. By bringing the full range of their professional and academic experience, Directors who have participated in policy issues by working with staff beyond the confines of Board meetings have helped the Fund remain a dynamic institution.

Further, the Board has pushed for improving program design, which may contribute to enhancing effectiveness even further, though we acknowledge that the process remains an on-going one. We certainly agree that overall effectiveness appears to be strongest when the Fund is in “fire-fighting” mode in dealing with potentially systemic crises. Where the Fund has been far less effective in designing smaller programs, and in its surveillance mandate, as the current turmoil shows. Given that the new business model of the Fund will be focused on the latter, it is disappointing that greater weight was not placed on surveillance, which may have led to a different conclusion.

Size and Composition of the Board

On the size of the Board, the IEO appears in two minds – the Board certainly does not seem too large compared to other organizations, but it seems to take up a lot of space. Part of this is attributable to the designation of the Board as an executive body. We are not sure that the proposals laid out will materially change the structure and nature of the Board, something we will come to when discussing the recommendations

We took note of the IEO's recommendation to abolish the distinction between appointed and elected chairs, as this might help balance constituency sizes and improve representation. From a governance perspective we agree with Mr. Moser and Mr. Weber that this distinction may be unhelpful. However, it is not clear to us how the practical improvements would occur. Further, given that of the eight single-country chairs, five are members of the G7 and one more a member of the G8, we think the influence of this most influential of the Gs would remain a major factor, whether or not Directors are appointed or elected, and even if the largest shareholders were part of multi-country constituencies.

Review of Board Involvement In the Article IV Process

We also agree that discussions can and should focus on systemic issues, and we have indicated in the past that we would appreciate greater time allocated to regional and multilateral surveillance discussions. Having said that, one does not wish to wash one's hands completely off bilateral surveillance, having just reiterated that such surveillance is at the heart of the Fund. Rather, we encourage the ongoing practical shift to speedier, more focused Board meetings on country issues, as evidenced by the drastically shorter time spent on these matters (from 1.7 hours in 1999 to one hour in 2007). In that respect, we think the use of grays has been helpful, promoting brevity though perhaps at some cost to spontaneity.

Accountability

We note that the IEO's assessment that is no mechanism to hold the Board as a collective body accountable to the Governors, and none to hold the MD accountable to the Board. In the case of the Board, it is not clear that beyond holding their own representatives to account, the Governors can hold the entire Board to account for its performance. Further, while it is clear that the Fund should be cognizant of the views expressed by stakeholders outside the Fund, we are not sure how these groups can hold the Board, as a collective body, accountable for its decisions or assessments. For instance, the Fund was not able to provide the requisite warnings in the run-up to the recent financial turmoil, nor ahead of the drastic increases in food and energy prices, in spite of work done by staff on these matters precisely because Board discussions strive to reach a consensus.

The IEO also implicitly criticizes Directors' lack of engagement with civil society organizations and legislatures in their home countries. Given the geographical distance between some Directors and their authorities, and also the legal differences – for instance,

many Directors are accountable to the executive branch of their authorities and not the legislature – such concerns may be overblown. Also, from a practical perspective, Directors who represent large constituencies cannot devote as much time as single country chairs in interfacing with their constituents, though technology certainly has helped. We also worry that the Fund’s new restrictive budget is likely to hinder face-to-face meetings between Directors and their Governors

On the issue of job descriptions for Directors, it is not clear that the Board could write job descriptions for its members. Further, it is not even clear that other Governors have the legal right to use such a description in assessing whether a Director who has been elected to represent members other than themselves should take his or her place at the Board. Election to the Board is as much an issue of representation as of providing executive and supervisory oversight, a right the Governors cannot delegate easily. We also saw little evidence that Directors are unsure of the roles they are meant to play at the Board, though we agree that a strengthened induction process for Directors and their staff would be helpful.

We see merit in the idea of extending Directors’ terms to three years, from the present two, though given that the median length of service on the Board for Directors is 39 months (including time spent serving as Alternates), we are not sure if any practical benefit would flow from this suggestion.

We appreciate the suggestion for self-evaluation. Certainly, we would like to encourage greater accountability but we wonder how practical this idea might be. Most authorities may be able to answer on the effectiveness of the Fund (including the Board) as a whole, and of their own Directors, but not more. Even in the event they could discuss the performance of other Directors, it is not clear they can or would be inclined to do so. We would not consider this to be a high priority, given that either the desire for re-election or continuing their careers with their home authorities provides an incentive for Directors to discharge their duties effectively. On the matter of evaluations for staff in the EDs’ offices, some of our authorities already request such reviews for their representatives posted to our office, and we can see the merit in making this a general practice.

Board Committees

We do think there is scope for greater consensus building at the Board Committee level, and would encourage Committee chairs to pursue this to the extent possible. However, we are not sure that all Committees could be chaired only by EDs, especially when some of the Committees in question primarily discuss administrative issues of the Fund, where Management input would be invaluable. Nevertheless, we think a systematic examination of where greater involvement by the EDs could be helpful has merit.

Disclosure and Transparency Including Summing Ups

We agree some clarity on summing ups would be helpful, though we did appreciate the Secretary's clarification that the "code words" used helped give some flexibility in building consensus. Still, given that it takes a year to be "initiated", to use Mr. Torres and Mr. Pereyra's term, we would urge greater clarity in their use to speed up the settling in process for new Directors and their staff. Finally, we note the still-restrictive nature of the Fund's embargo policy and agree a thorough review of the policy may be in order.

Proposals on Management

We found the detailed suggestions for improving Management oversight useful, and note the work already in the pipeline in that regard. We can certainly agree that an improved selection process for the MD ought to be in place, as the current system of decisions by capitals on a political basis does not go far in improving the legitimacy of the Fund. We can see merit in the proposed selection process for DMDs, especially since they are part of the MD's team. Having said that, any candidate considered for the post of the Managing Director will most likely have worked with a large and diverse group of people, and is likely to be able to do so at the Fund. If anything, we would prefer there be attempts to institute checks and balances within the Management team, given their central functions as the Chair and Acting Chairs of the Board. This would suggest that the MD should purposefully aim for diversity, not just in terms of regions and expertise, but also by temperament so as to cultivate a wide possible range of views. Finally, we think the concern that the delineation of work among the DMDs, especially on country issues, as being *ad hoc* and confusing to senior staff to be less convincing for two reasons. First, the Management team is very compact, and it certainly should not be impossible for these four people to come to some sort of consistent position on like-situated countries. Second, the area department heads have a significant and important role to play in terms of maintaining internal consistency in the analysis their teams provide, even ahead of country discussions reaching the Management team.

We agree that the Board should develop and implement an accountability framework for management, and look forward to discussing the work done so far. We also agree that the Board ought to discuss the selection of staff who have a role to play in advising the Board as one of the key functions, such as the Fund's Legal Counsel. On the question of constituting a Board Audit Committee in place of the current EAC, we are willing to keep an open mind on it. Having said that, we would welcome some greater thought put into the practical aspects of such a change, including in terms of risks, costs and benefits.

The process in dealing with the IEO Report

The key factor that will determine the utility of the Report is not necessarily its findings or recommendations, as thought provoking as they are, but how the follow-up work program should proceed. We certainly find many of the views held by a number of Directors useful

guides in how to move forward. We agree that the main factors to be considered include communication, interaction with the IMFC and ultimately the Governors, and follow-up work that encompasses views from stakeholders to develop a holistic response.

From a practical perspective, it would be helpful to discuss the recommendations contained in this Report in the context of what can be done by the Fund, and what needs the consideration of our authorities. The further advantage of this practical bifurcation is that it gives us a useful way of dealing with additional comments and suggestions that the publication of the Report is sure to provoke, and in responding to the MD's proposals to launch initiatives in the area of governance. Of course, one imagines that not all suggestions will be easily categorized in group or another. However, being able to answer questions that allow a proper demarcation of responsibilities allows the Board's discussions to be more focused.

Therefore, we support Mr. Fried and Mr. Perrault's suggestion that an informal Board working group be set up to consider the purely practical matter of areas that the Board ought to take responsibility for and those that need to be elevated to the IMFC Deputies, the IMFC and ultimately, the Governors. As a first step, the focus of the working group's discussions ought to be the IEO Report, but eventually it could expand to help us deal with suggestions from other stakeholders more effectively. One could even make a case that suggestions as to the competent bodies for each and any of the recommendations could also be tentatively identified by this working group, though the final decision on the program would have to be endorsed by the Board.

We think that communication will be a key issue. Certainly, we are not in favour of unnecessarily holding off the publication of the Report and our reactions to it. Further, our discussion agenda for the day is already in the public domain and therefore, is bound to provoke interest. Rather, we are in favour of a communication strategy based on timely release of the Report and supporting documents – including the response of the EAC, staff and the MD – and a summary record of the discussions. With regard to the last, we are not sure a standard summing up and PIN is necessarily the best way forward – especially since a key criticism contained in the Report is the ambiguity in the Fund's language. Rather, we think that a PIN could be a short one that notes the ongoing nature of the discussions, and the need to canvass further inputs from a broader audience, including all stakeholders, and puts emphasis on the commitment to addressing these issues, preferably in a time-bound manner.