

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

GRAY/08/1617

May 20, 2008

**Statement by Mr. Kiekens and Mr. Rottier 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 its report that touches upon a wide range of IMF governance issues.

The IMF has a unique governance model. It is fair to conclude that the Fund's governance is relatively effective and efficient, particularly in comparison with other public international institutions. The IEO recommends that the roles and responsibilities of the various governance bodies be clarified to minimize overlap and address possible gaps. Doing so should enhance the Fund's effectiveness, accountability and legitimacy.

The IEO proposes that a ministerial Council would take decisions on strategic goals for the Fund and oversee the Board of Directors. At the same time, the Executive Board (which would remain residential), would see its executive mandate become less comprehensive, allowing it to focus more on the formulation of strategy and its oversight of Management. Management, in turn, would receive broader executive responsibility. Regrettably, the IEO does not consider in detail other governance models. The proposals aim at strengthening political legitimacy for strategic decisions but unfortunately they reduce legitimacy in other sensitive areas. The proposals also aim at reducing the overlap between the Executive Board and Management but, at the same time, create an overlap between the Council and the Executive Board.

**IMFC - Council**

The proposal to establish a Council to replace the IMFC is not a new one and has been considered in the past on several occasions. Before endorsing this IEO recommendation, more careful consideration is needed. A good working Council could enhance the formal involvement of Ministers and Governors and thereby strengthen political legitimacy of the Institution. If the Board of Governors delegates to the Council authority to exercise any of its powers, it should establish a clear delineation between the competences of the Council and the Board of Directors.

The selection process for the Chair of the IMFC (or of the Council) should genuinely include all members. This position should have a maximum term of three to five years. All members should be involved in the agenda setting of the IMFC (or Council) meetings. Voting should be avoided and consensus pursued, as is the current practice in the Board.

The IEO report observes that the cost of the IMFC meetings is not out of line, because they coincide with complementary gatherings. However, this is not the case for the IMFC deputies meetings. Deputies meetings should be organized sparingly, when there is a clear demonstration of value added that justifies the cost.

The proposal to restrict the mandate of the Development Committee to issues related to the World Bank should be carefully examined.

### **Executive Board**

We agree that the Board could strengthen its important oversight role and focus even more on the design of the Fund's strategy. However, if the Council is established, delineation between the competences of the Council and the Board would be critical. Under this set-up, in day-to-day practice, the Executive Board should continue to play an essential preparatory and facilitating role in the decision-making of the Council.

The Executive Board should maintain important executive power, as provided in the Articles of Agreement. Its functioning could become more efficient by delegating preparatory work to committees, and by a common sense interpretation of the delineation between conducting the general business of the Fund, which is the mandate of the Board, and the conduct of the "ordinary" business of the Fund, which is the mandate of the Managing Director. It is essential that formal decision-making power on topics that are not daily or ordinary business remains with a residential Board. This is necessary in order not to jeopardize the ownership of decisions by the member countries of the Fund.

We should strive for fewer and more efficient Board meetings. The Dean has already announced that he would discuss this with Directors. However, we do not believe that concentrating all meetings during a single week in the month, as is suggested by the IEO, would allow Directors to have more impact during Board meetings. On the contrary, experience shows that during periods of excessive concentration of meetings, the quality of Directors' contributions tend to decline.

We do not support a differentiation in the treatment of Article IV consultations by having management-only consultations for less important countries versus regular consultations with Board involvement for systemically important countries. This is contrary to the principal of equal treatment of members.

We are not convinced that electing all Executive Directors would encourage large countries to invite smaller countries in their constituency. Three countries that do not appoint an Executive Director now prefer not to invite other countries in their constituency. Amending the Articles of Agreement solely for this insignificant change does not seem justified.

A highly professional competent staff in OED offices is critical for the quality of the Board's work. Nonetheless, the selection of staff in Executive Directors' offices should remain at the discretion of the Executive Director and country authorities. Lengthening the term of service of Executive Directors would enhance the effectiveness and efficiency of the Board.

There is a code of conduct on the ethical behavior of Executive Directors. Directors must comply with this code. Compliance is enforced by the Board on the recommendation of the Executive Board Ethics Committee. However, suspending or dismissing an Executive Director is the competence of the authorities who have appointed or elected the Director.

The independence of the General Counsel in providing legal advice to the Board, and of the Secretary in ensuring the integrity of the decision-making process, are critical components of the Fund's governance. The same holds for the independence of the economic counsellor, and of the Directors of the Policy Development and Review Department, and of the Internal Audit Office. A formal role for the Board in the selection of these five Directors would be useful.

Executive Board committees could technically help prepare decisions, particularly on issues that have less policy impact. However, as noted by the staff, the Board should remain the decision-making body with committees having an advisory role. More lapse-of-time Board decisions could be considered. We agree with the proposal that all Board committees should be chaired by an Executive Director. However, we believe that involvement of management and every Executive Director is essential for the budget preparation. Thus, we favor abolishing the Budget Committee. We believe that the internal audit office can assist the Board in fulfilling its oversight duties. We remain open-minded on the desirability of an Audit Committee of the Board.

The procedures of Board meetings and summing-ups, are well documented in a Compendium of Executive Board Matters which is available to all Executive Directors, their personnel, the staff of the Fund and the authorities in member countries. We should consider which part of this compendium should be made public, in order to promote correct understandings of Executive Board summing-ups included in Public Information Notices.

We can consider shortening the length of time before Board minutes are made public. However, the proposed two-year period seems too short.

## **Management**

As noted in the report, work is underway on an accountability framework for Management. We support the introduction of performance criteria and a preliminary confidential assessment by a committee of Directors of Management's conduct of the ordinary business.

The Board has already agreed, and publicly confirmed, that candidates of all nationalities are eligible for the position of Managing Director, and that candidates' qualifications are essential. We note that the IMF is one of the few international institutions where more than

one candidate was interviewed by the Board. Before the last selection, a candidate profile was published on the internet, as were statements by the candidates.

The selection process for the Deputy Managing Directors should be broadly similar to that of the Managing Director. However, in the present governance structure, the right to nominate the Deputy Managing Director belongs to the Managing Director. Under the current rules and practices, appointments of DMDs require the consent of the Executive Board.

A code of conduct for the Managing Director is agreed upon in his contract with the Fund. Assessing compliance with the agreed code of conduct is the duty of the Board.

### **The Way Forward**

The IEO report is a helpful but insufficient framework for deciding important changes in the governance structure of the Fund. Many of the IEO proposals have already been considered in the past. The Board of Governors, the IMFC, the Executive Board, and Management, with the assistance of the Fund staff and outside experts, need to cooperate constructively to find a broad consensus on how to improve the governance of the Fund in all its dimensions.