

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

GRAY/08/1625

May 20, 2008

**Statement by Mr. Guzmán 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 the work carried out. We think it is a valid starting point for a debate aimed at strengthening the governance arrangements of the IMF, a debate that will certainly require time to mature into practical conclusions. At the outset, it is fair to highlight three general judgments that will somehow emerge in different sections of our statement.

- First, it is worth recalling that our authorities have not had time to discuss the particulars of this Report among themselves. In this regard, it is relevant to point out that the most substantial changes suggested to IMF governance belong in the domain of Governors' decision. At this stage, the position of this constituency is to be interpreted as a preliminary assessment and does not necessarily represent our Governors' final views.
- Second, although some facts are presented with a degree of conviction that does not cope well with the evidence emanating from the surveys, we broadly share the diagnosis of the Report. The flaws detected in the Governance structure and processes of the IMF have been studied for some time. Indeed, several have been recurrently addressed by the Board in a continued drive to reform governance in most of these areas over the past years.
- Our main proposition, however, is that the Report shies away from extracting the full set of consequences of its diagnosis. In that sense, we interpret the recommendations only as a possible set of solutions—one that will need deliberation at the Governor level, and will probably also need to be enriched by the input from other sources.

In our view, the Report addresses three main sets of problems; those stemming from the confusion of roles, those related to lack of accountability, and those that affect efficiency in carrying out the mission.

1.- Separation of functions.

The Report rightly points at the confusion of functions between Board and Management. It suggests that the Board should be reoriented towards a more supervisory and strategic role, leaving ordinary operations to Management. On the other hand, the IMFC is said to lack legal powers to enforce its strategic thinking, is seen as hardly deliberating anything and failing to supervise the institution. We would share both broad assessments in that they are formally correct. In addressing these issues we will add certain practical considerations which we fear might make the solutions somewhat less clear-cut.

The IEO suggests we activate the Council contemplated in the Articles of Agreement. *Prima facie*, we hold this proposition as one that could certainly incorporate Ministerial level executive decision-making into the workings of the institution, and could more effectively supervise the institution. However, two observations come to mind:

- First, we need to reflect on the fact that a majority of our Governors and Directors have expressed in the Survey a degree of satisfaction with the accuracy and/or clarity of guidance from IMFC Communiqués. This may lead to question if the IMFC has only a consultative nature. Do we really share the notion that IMFC communiqués do not provide strategic guidance to the institution?
- On the other hand, it is true that the IMFC is currently not playing an oversight or supervisory role vis-à-vis the IMF, the Executive Board, and Management. But then it is also true that such an important function is not explicitly contemplated in its mandate. This might in turn lead us to ask if a ministerial level body would be the best suited to hold Management accountable if there is an Executive Board that has already an oversight function. Are we not duplicating oversight instances? Is it necessary? Is it realistic to think Ministers in a formal bi-annual gathering will be prepared for holding Management and the Board accountable for “the management and adaptation of the international monetary and financial system” (Resolution 54-9 on IMFC creation)?

We are in favor of a certain degree of delegation of executive powers from the Executive Board to Management. It is apparent that there are efficiency gains to be attained by limiting micro-management and curtailing the intrusion of the Board in day-to-day operations. The combination of this recommendation with the strategic and executive role envisaged for the IMFC/Council should, however, entail a more drastic change in the number of meetings of the Board, their periodicity and their content, as well as more efficient procedures. We think the Report does not explore other alternatives and that a more thorough study is called for; for instance, this recommendation connects with the refocusing of surveillance and the treatment of Article IV Reports on non-systemic and non-vulnerable countries, but also on the need to rethink the way Committees of the Board are designed, their mandate and working rules.

We are unable to pronounce ourselves on the election and duration of the term of Directors and we see little value in the need to establish job descriptions for the position. In any case, this limitation of the capacity of Governors to appoint their representatives in a multilateral institution would need to be based on more solid grounds than the surveys presented.

2.- Accountability framework.

In the IEO's proposal the Board would move to a more supervisory role. We share the need to devise an accountability framework for Management and we are in record supporting the Statement of Priorities as a reasonable tool to periodically evaluate the effectiveness of the institution.

The most important and immediate change from the point of view of accountability of management would be the revision of the MD selection process, and that of the appointment of his deputies. A full opening of the positions would allow membership to believe in the agency relationship established with the MD, and would *per se* empower them with the right to make the MD accountable. The same principle could be used in support of the selection process for the chair of the IMFC/Council meetings (selection and term).

The design of a formal accountability framework requires careful attention in the capitals. Its implementation would in itself help the Institution become more transparent, but it would inevitably bring about a natural corollary: The need to establish the necessary mechanisms through which governments can report to their societies on the outcomes of the Fund's operation (through Parliament in certain countries). Further work on alternatives is needed also in this field.

We are in principle in favor of establishing a self-evaluation mechanism for the Board and we look forward on how to take this recommendation ahead.

3.- Processes and efficiency.

We think the rules and traditions governing work within the IMF should only be subject to revision once the general structure of the governance of the institution is agreed upon. As a first impression, we are sympathetic with the IEO's idea on the need to revise the functioning of committee work; the IEO suggests "commitology" could replace formal Board sessions in certain issues and this might be a reasonable way of progress. But for that role to be played by Committees the rules determining their composition, terms of reference and chairmanship need to be profoundly revised.

Finally we share the IEO's view of the 'summing ups' as sometimes illegible—and most of the times obscure—statements of agreement. However, we hold SUs as the lesser of two

evils. SUs were born to speed agreement and consensus avoiding the need to reach formal decisions in all issues and with full detail. In that sense, let us not forget that SUs save a lot of debate and unnecessary voting. We are also concerned about the waste of resources involved in the process of Board debate, presently centered in the issuance of our grays. The solutions suggested by the IEO—more focused interventions and early issuance of the gray statements—might be appropriate. But when you put them in connection with eventual changes in the functions of the Board, as well as with the refocusing exercise and the streamlining of certain tasks, other solutions might also appear reasonable. These alternative avenues should be studied in order to increase efficiency without damaging the quality of the work of the Board.

Concluding remarks, a way ahead.

In concluding, we thank the IEO for an ambitious Report. We hold the Report and its recommendations as a positive input to a broader effort by the international community to enhance the legitimacy of the IMF via improvements in its governance. The quota and voice reform process has delivered results only after two years of debates and we sincerely hope that certain obvious potential improvements in our governance do not need that much time to be adopted. We foresee that this Report, together with contributions from outside the institution, might help our Governors to make adjustments to further adapt the IMF to the changing world.

Looking ahead, we would support the immediate publication of the IEO report but would like to suggest, as other Directors, that the elaboration of an implementation plan for the IEO recommendations be postponed until our Governors have reached their own conclusions on the relevant issues. As a Board, of course, we should be prepared to hold further discussions in the months ahead, hopefully with additional independent advice, to help our Governors adopt final decisions.