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**Statement by Mr. Nogueira Batista and Mr. Mori 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 thank the Independent Evaluation Office (IEO) for the assessment on IMF Corporate Governance. We also thank the staff for the very helpful Buff statement.
2. The Survey conducted by the IEO brings us an interesting set of results. However, it is somewhat disappointing to see the low participation of the IMF senior staff in the exercise, standing at 44 percent, the lowest among the three groups surveyed.
3. Two outcomes of the Survey have to be underscored as they are reason for serious concern. First, a majority of low-income countries are concerned with the consequences of criticizing the views of staff or Management in IMF policy debates. Second, the Board is considered particularly weak on financial sector issues. If this is true, the Board would not be in a position to assess the adequacy and quality of staff's recommendations provided during the crises in emerging market countries, as almost all cases are associated with financial sector problems. However, the ongoing crisis in the mature economies has shown that lack of knowledge about financial issues seems to be a more generalized problem.
4. Our comments on the IEO's four general recommendations are the following:

Recommendation 1

5. The IEO recommends a better delineation of responsibilities between the Board and Management. For this purpose, we are of the view that there is no need to shift the balance of the Board's activities towards a more supervisory role. The IEO indicates some instances where overlaps and gaps existing in the roles of the Board and Management can be improved under the current structure. There would be overlaps regarding the Board's role in "direction and control" and an intrusive micromanagement towards responsibilities of Management.

The pragmatic approach followed so far remains adequate instead of a rigid delineation of responsibilities. Also, the IEO recommendation seems to narrow the responsibility of the Board. We do not agree, hence, with a more supervisory role for the Executive Board.

6. More has to be done, however, in filling the gaps indicated by IEO. The Board could play a more active role in strategy formulation and it has to be more effective in monitoring policy implementation. We should not be satisfied with the current situation where some important strategic ideas come not from the Board or Management but from outside the Fund, usually from large shareholders.

Recommendation 2

7. The IEO recommends further thoughts in introducing effectively the Council, replacing the IMFC. We do not see a major advantage in relation to the current informal—and flexible—decision-making process of the IMFC. The IEO notes that ministerial involvement in the Fund's business is weak, except in special circumstances. Yet, it seems an illusion that the ministers as members of the Council would be more engaged in the business of the Fund. Governors are usually involved in several issues and concerns in the domestic sphere. Introducing the Council would not change this basic reality and make their participation more effective than in the current IMFC.

8. As a result, member countries with a more organized bureaucracy—the advanced economies—tend to have advantages because they have already divisions or departments dedicated exclusively to IMF issues. It would be difficult for developing countries, or even emerging market countries, to set such a structure, because of a lack of both financial and human resources. Therefore, we do not see advantages in the recommendation to activate the ministerial level Council.

Recommendation 3

9. The IEO seems to be a strong advocate of transforming the Board into a more supervisory body, but their arguments are not convincing. They argue that the need for an executive board by the time of the creation of the IMF was associated with the par value system of exchange rate arrangements. Such a link between an executive board and the par value system is not clear. The IEO also mentions the limited communication between Directors and the authorities at that time. Yet, even with the advances in the communication technology, contacting the authorities is not trivial in view of particularities involved in the issues discussed by the Board and many member countries do not count on specialized bureaucracies to discuss the issues on time.

10. A supervisory role for the Board as recommended would be related to fiduciary oversights such as financial management, risk management, and preventing misconduct and

conflicts of interest, and an oversight of human resource and administrative policies. These activities seem to be of lesser relevance for the Executive Board of an organization like the IMF.

11. We do not agree to change the modalities of the Board's involvement in the Article IV surveillance process. Bilateral surveillance and review of Fund programs are the main responsibility of the Board and cannot be transferred to Management, staff or committees. Also the entire Board has to participate in the discussions of agenda items that require diversity of opinion within the membership, and here the dimension voice is an important element in the governance of the institution.

12. Committees in this sense tend to lack such a diversity of opinion because the participation would be restricted to members only. Moreover, the experience so far with committees in the Fund has not been encouraging. The meetings have become as formal as a Board meeting and sometimes longer. The scheme of committees tends to work better in issues where the focus is narrow and specialized.

Recommendation 4

13. We agree that a framework needs to be in place to hold Management and the Board accountable for their performance, though it is difficult to set a benchmark. We look forward to seeing the progress of the Working Group on the Framework of the Managing Director's Performance Evaluation chaired by the Dean. We also welcome the work that is being done to implement a similar framework to the Executive Directors.

On some specific recommendations:

IMFC

- We agree with the IEO recommendations that, first, the process for selecting the Chair of the IMFC should be transparent and inclusive of the full membership, giving both developed and developing countries an opportunity to lead the IMFC; and, second, a maximum term (say three years) should be set for the position of IMFC Chair.

Executive Board

- We share the view that the Board needs to improve its efficiency and effectiveness. The main concern is related to the discussions of Article IV where the Board is recognized to add little value. For this purpose, however, there seems to be a need to think of ways of strengthening the technical capacity of the Executive Directors' offices.
- We agree that it is highly desirable to have a more rational and better distributed agenda

of the Board meetings. More work has to be done between the Secretary's office and the Board Committees to enhance the procedure. Unless there is a significant change in the Board activities, the proposal for the Board to meet one week a month is not viable, and, therefore, we cannot go along with it.

- We see merit in increasing the terms of service of Executive Directors and their Alternates from two to three years.
- We agree with the Secretary that the SUs have to reflect the views expressed by the Executive Directors and not necessarily what is said by staff. The text of summings up, however, could be improved with a more precise counting of the Directors' positions, but it would also be helpful if the grays are more explicit in expressing positions in the key issues. The code words for summings up could be made public as this would help outsiders to better interpret the views of Directors in Board meetings.
- The suggestion for grays to be circulated at least 48 hours in advance of meetings could be desirable, but in practice this seems too ambitious because the time required for their issuing depends on the internal procedure of each office. It would be, however, helpful if grays are shorter than the current practice.
- We are not convinced that there is a need to change the current transparency policy.

Management

- We are also of the view that the selection process for the Managing Director should be reformed. Candidates' qualifications and likely effectiveness should be the main criteria used in the selection, and the competition should be open to candidates of all nationalities. Also, there should be an open selection process for the FDMD and DMD positions, based on clearly specified criteria. Regional diversity should be one of elements in the selection and the position of FDMD should not be reserved for any particular nationality.