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Statement by Mr. Rutayisire 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
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1. We appreciate staff's reports on the aspects of IMF governance, the findings of the surveys and interviews, and the recommendations set forth to improve accountability and voice of the governance structures of the Fund while maintaining its well-recognized effectiveness and efficiency. This discussion comes at an opportune moment indeed when, following the work of quota and voice reform, enhancing the institutional structures is called for to strengthen Fund's relevance and legitimacy. We view this report as part of the ongoing process of improving Fund's governance and performance of its mandate as required by the Articles of Agreement.

2. In its analytical approach, the IEO report focuses on three governance structures of the Fund, namely the IMFC, the Executive Board and Management. However, reading through the report, reference is made to other governance structures of the Fund which are an integral part of the three structures and which would have deserved a more coordinated attention. For example, the oversight role of the Board mentions nothing on the internal control and risk management committee of the Board, the independent audit committee of the Board and the internal and external audit committees which are responsible before the Board and form key aspects of the Board's enforcement and control of implementation. The report also makes references to the governance codes implicit in the Articles of Agreement and the By-Laws but does not include them in an integrated analysis framework of Fund governance. As a matter of fact, some of the recommendations proposed go against the Articles of Agreement and the By-Laws, and in the proposals we do not see a recommendation that the Articles should be amended in the first instance.

3. In addition to these general remarks, we shall for emphasis confine our views to the recommendations made in paragraphs 64 through 86 and shall limit our comments to

those paragraphs with which we have disagreements.

On the role and responsibilities of the governance bodies

4. The Articles of Agreement and the By-Laws define the role of the Board of Governors and that of the Executive Board in broad terms. In turn, the Board defines the role of Management in form of the contract which the Board signs with the Managing Director and which is approved by the Board of Governors. The IEO report recommends that the role of each of the above structures should go into the details of each body's functioning. Our concern is whether such a level of details could not limit the agility of each of those structures in performing its roles as required. Furthermore, we would like to know if by lack of clarity of the role of the Board and Management, the IEO report would suggest that the role of the Chairman of the Board be split from that of the Managing Director. Most governance evaluations we have seen recognize that a combination of the CEO and chairman of the Board has more merits in the enhancing Board's decision-making and effectiveness than splitting the role of CEO from that of the Board Chairman.

On systematic Board's involvement in setting goals and overseeing performance

5. In private corporations, shareholders do not engage in setting strategies and overseeing performances of corporations in which they have invested their capital. Their only concern is to see that Board and Management deliver on shareholder value. First, with the IEO report recommendation, we question ourselves why Ministers as shareholders of the Fund should be engaged in setting the objectives and overseeing performances of the Fund on the mandate they have assigned. The only exception in our view is if the Board and Management have complicity in the principle-agency problem, and the IEO report does not show that this is the case with the Fund.

On the recommendation of a supervisory Board instead of an executive Board

6. An executive board should be concerned on how the corporation should function and exercise control on a daily basis. Effectiveness of the Board must be reflected by the extent to which the Board significantly influences the direction of the company, sets performance objectives for management, and places limits on the discretion of management. The Board should also bear overall accountability for the performance and internal control of the company. This is how we interpret Section 3 (a) of Article 12 of the Fund's Articles of Agreement. A supervisory Board would not competently perform such requirement. We believe that the current Fund's Board, through its various committees, has been able to enhance its independence and effectiveness in exercising its roles as required by the Articles.

7. A major question for us is whether members of the Fund's Board receive all the

information needed or receive it in time to make decisions. The IEO report correctly indicates situations—especially under crises—when Fund responses have been done outside the Board. But previous independent evaluation reports have shown that some Fund recommendations on crisis prevention, which were made under such circumstances, were at times flawed. At times, Fund's internal communication and document circulation periods have also not provided the Board with real-time information. All these, in our view, reflect operational shortfalls which can be corrected in the current set up as opposed to the necessity for a supervisory board.

On the recommendations on IMFC and Board of Governors

8. We see the present structure of the Board of Governors and IMFC broadly as having served the Fund well.

On the report's further recommendations on the Executive Board

9. The IEO report recommends that the Board should give greater emphasis and develop more effective processes to provide oversight over the implementation of agreed policies and strategies. Currently, the Board performs these functions through Board's program and policy reviews. It also exercises control over implementation through the internal control system, the Fund's risk management committee, a system of internal and external audits, as well as the audit committees of the Board, including the independent evaluation committee itself. Does the IEO view any deficiencies in such control arrangements?

10. Furthermore, we do not agree with the report recommendation that the Board control over Fund risks should be confined to systemic risks alone. Under the current system, Board control over Fund risks is comprehensive, covering systemic risks, risks related to use of fund resources, operational and reputational risks, etc. This should continue to be the case. The report states that Fund programs other than systemic ones should all become staff-monitored programs. This has fundamental implications. Programs not approved by the Board have not been supported by other donors, and this already implies advocating an equal treatment of certain Fund members, including the possibility of making it difficult for those members in mobilizing donor support.

11. The recommendations made on the structure and working of the Executive Board, including selection of Executive Directors all go against the Articles of Agreement and infringe on membership's rights which are recognized by the Articles. One key issue in corporate governance is to protect shareholders' rights, and for this reason, we cannot support IEO recommendations in the related paragraphs.

On Management and Board accountability

12. We do not support the recommendation that Management and the Board should be accountable for multiple objectives whose benchmark performance targets are imprecise. This can overstretch Fund's resources and Board and Management's effectiveness. The Fund's Articles of Agreement and By-Laws provide for the Board and Management to be accountable to the Board of Governors in the form of an annual report on the state of the Fund's operations and that of the international financial system. A report of the independent committee of the Board as well as attestation of external auditors are also submitted to the Board of Governors along with Management's response. It is possible that the width and depth of disclosure in such reports need to be expanded but it cannot be ruled out that such disclosure does not constitute accountability on part of the Board and Management.

On voice

13. We agree that the size of constituencies presses heavy demands on Directors 8representing multi-country constituencies at the Board. Recent reforms approved by the Board of Governors on quota and voice are steps in the right direction. We agree with the report that increases in the number of chairs can be a first-best. However, the issue of voice is also about respecting the rules of law. We have seen instances where goal posts have been shifted in the middle of the game, especially for program countries, and one may question if these practices may not prevail irrespective of the number of chairs.

Electing the Managing Director and the Chairman of the IMFC

14. The recent Board decision on selecting the MD, in our view, goes in right direction of good governance. Regarding the selection of the Chairman of the IMFC, we find the provisions in the By-Laws as also being satisfactory.

In conclusion

In our view, the recommendations made by this report deserve to be pursued by a more profound review by a committee of the Board whose mandate could also be to examine other issues left out in the report, including determining the implications for the Articles of Agreement and the existing By-Laws. As the issue of governance has wider implications on the membership, adequate consultations with governors would have to be allowed for.