

Foreword

This evaluation report calls for major changes in the governance of the Fund to strengthen its relevance and accountability and allow it to continue to play a central role in global financial and monetary matters into the future. It is an unusual evaluation for the IEO in many ways. It examines the quality of the Fund’s overall governance arrangements, rather than the quality of its outputs or of specific processes within the organization as is the case in other evaluations. The main focus of this evaluation is the IMFC, the Board and Management, and not Management and Staff as is usually the case. As a consequence, follow up for this evaluation requires a different process, in particular it requires the active involvement of the Fund’s political masters. While the Board and Management can undertake some changes, the main decisions and the bulk of the effort would fall on Ministers and Governors, as direct representatives of the membership.

Improving its governance is widely recognized as a critical element in enhancing the Fund’s relevance, legitimacy, and effectiveness. The Fund started some 60 years ago as the guardian of the par value system, with 44 member countries and 12 Executive Directors. Today, the par value system is long gone, and the Fund has 185 member countries and 24 Executive Directors. While roles have evolved over time, in many ways the formal structure and many practices remain largely untouched; and the evaluation found that reforms have not kept pace with changes in the membership and in the environment in which it operates.

This report has four main recommendations and includes a series of detailed measures specific to each of the main governance bodies. First, it found that greater clarity is needed in the respective roles of the main governance bodies to minimize overlaps and to address possible gaps. Second, it identified the need for more systematic ministerial involvement and calls for the activation of the Council of Ministers, provided for in the Articles of Agreement, as the ultimate decision-making body for the institution. Third, it recommends reorienting the Executive Board’s activities away from executive day-to-day operational activities towards a supervisory role—thereby enabling the Board to play a more effective role in formulating strategy, monitoring policy implementation to ensure timely corrective action, and exercising effective oversight of Management. Finally, a framework needs to be in place to hold management accountable for its performance. Many of these issues are complex, interrelated, and need to be discussed holistically.

It is a sign of institutional strength and of the Fund’s willingness to learn and improve that it has been open to an independent evaluation of its own governance. The Executive Board and Management have welcomed the IEO report as an important contribution to efforts to enhance the Fund’s relevance and legitimacy. It is now important that the IMFC and other Governors engage fully in setting the path for significant governance reform. This will not be an easy task, and we hope this volume will help inform those efforts.



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Executive Summary

This evaluation assesses the degree to which Fund governance is effective and efficient, and whether it provides sufficient accountability and channels for stakeholders to have their views heard. The focus is on institutional structures as well as on the formal and informal relationships between the Fund's main bodies of governance: the Executive Board, Management, and the International Monetary and Financial Committee (IMFC).

For much of the past six decades, gradual reforms in its governance allowed the Fund to remain relevant in a changing world economy. But the reforms have not kept pace with changes in the environment in which it operates. Today, the institution's legitimacy and relevance are being questioned. Much attention has recently been focused on quotas and voting power, but broader governance reform also holds the potential to strengthen the Fund's legitimacy, accountability, and effectiveness.

Overall, effectiveness has been the strongest aspect of Fund governance, allowing fast and consistent action particularly in times of systemic crisis. On the other hand, accountability and voice have been its weakest aspects, which if left unaddressed would likely undermine effectiveness over the medium term. The evaluation has four broad conclusions and recommendations, and it proposes a series of detailed measures specific to each of the main governance bodies.

First, there is a lack of clarity on the respective roles of the different governance bodies, and in

particular between the Board and Management. To strengthen the IMF's effectiveness and to facilitate accountability, the roles and responsibilities of each of its governance bodies need to be clarified with a view to minimizing overlaps and addressing possible gaps.

Second, the Fund needs more systematic ministerial involvement. The IMFC, as an advisory body, lacks a mandate for setting strategic directions and providing high-level oversight of the institution. To fulfill these functions, the evaluation calls for the activation of the Council, as contemplated in the Articles of Agreement, which should operate with a high degree of consensus, perhaps through the use of special majorities.

Third, the Board's effectiveness is hindered by excessive focus on executive, rather than supervisory, functions. The Board should reorient its activities towards a supervisory role, playing a more active part in formulating strategy, monitoring policy implementation to ensure timely corrective actions, and exercising effective oversight of Management. To this end, the Board would need to change many of its working practices, shifting away from executive, day-to-day operational activities, including through more delegation to committees and possibly to Management.

Finally, a framework needs to be put in place to hold Management accountable for its performance. Work is under way to set up such a framework, which should specify criteria and a process for regular assessments.

Introduction

1. This evaluation assesses the governance arrangements of the International Monetary Fund and identifies areas where they can be strengthened to help the Fund better fulfill its mandate. It defines governance as the institutional structure and the formal and informal relationships that govern the organization's decision-making processes and activities. Good governance can contribute to the IMF's legitimacy by ensuring appropriate representation for the membership and by facilitating transparency that allows scrutiny by relevant stakeholders. It allows the Fund to fulfill its mandates effectively and efficiently, it renders the Fund and its main organs accountable to the membership, and provides voice to relevant stakeholders. These four dimensions—effectiveness, efficiency, accountability, and voice—constitute the conceptual framework of this evaluation. The overarching evaluation questions are the following: To what degree do the Fund's governance arrangements allow the institution to operate effectively and efficiently? To what degree do these arrangements render the IMF accountable, and do they provide the membership with voice in decision making?¹

2. This evaluation focuses on the three central entities of governance in the Fund: the International Monetary and Financial Committee (IMFC), the Executive Board (Board), and Management. Above these is the Board of Governors, composed of ministers or central bank governors from each of the 185 member states, which has delegated most of its powers to the Board. The Board is responsible for conducting the business of the Fund in accordance with the powers delegated to it by the Governors. It is composed of 24 Executive Directors (Directors), 5 of whom are appointed by the IMF members having the largest quotas, and 19 of whom are elected by the

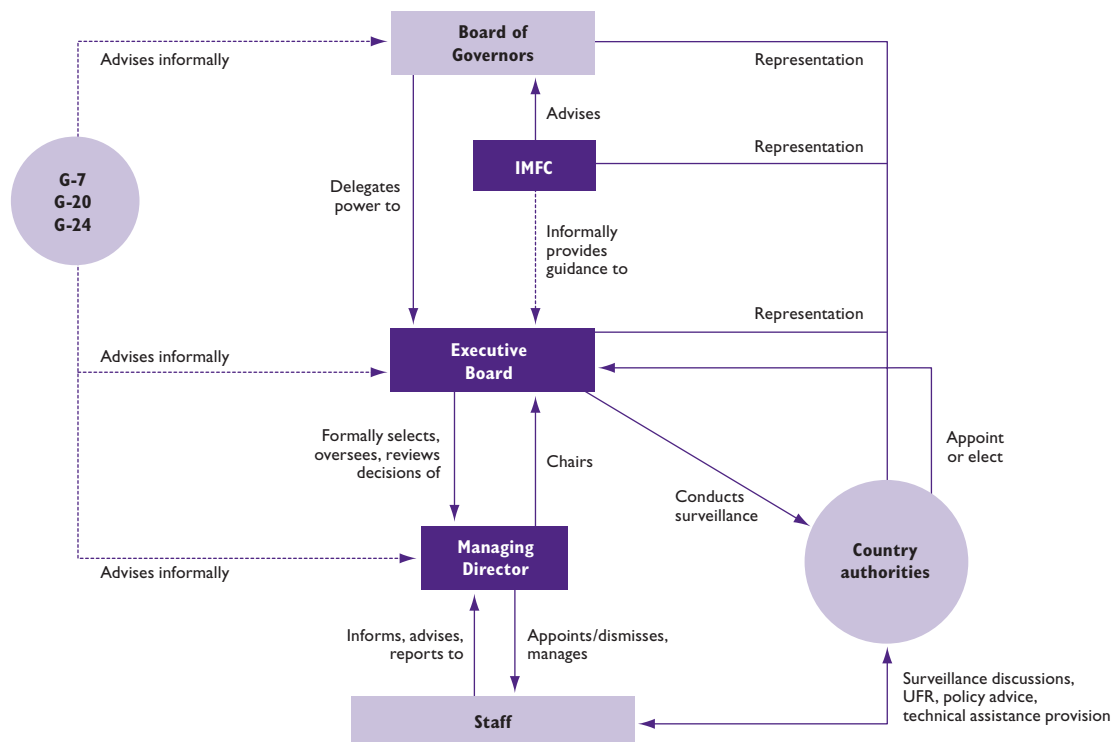
other members and organized in constituencies. Voting power on the Board is determined by members' quotas. The IMFC is composed of 24 Governors, reflecting the constituencies in the Board. The IMFC meets twice a year and it is charged with advising the Board of Governors on matters related to the management of the international monetary and financial system. Management is composed of the Managing Director (MD) and three deputies. The MD is both the non-voting chair of the Board and the "chief of the operating staff of the Fund." The MD is charged with conducting "the ordinary business of the Fund" under the "general control" of the Board. Figure 1 shows the Fund's main governance structures as well as their relationships. Annex 1 contains a detailed description of the Fund's governance structure and practices.

3. Over its 60-year life, the Fund's mandate and governance have evolved along with changes in the global economy, allowing the organization to retain a central role within the international financial architecture. The Fund has served as "fire fighter" in systemic crises and as lender of last resort for countries facing balance of payments difficulties; its surveillance mechanisms have served as the platform for dialogue on important policy issues; and it has provided member countries with standards and tools to improve their policies and institutions. These roles and the Fund's achievements have been made possible, in part, by the strengths of its governance arrangements relative to those of other intergovernmental organizations.

4. Equally, though, some of the difficulties the Fund now faces are due to weaknesses in governance. Concerns about legitimacy and relevance go beyond quota issues, which are outside the scope of this evaluation. They include unease about the process for selecting the MD and his deputies and about unclear or inadequate lines of accountability, as well as perceptions that the Fund has been slow to identify emerging problems and risks and failed to devise and agree on strategies to address them. Part of the explanation for these difficulties may be a lack of clarity on the respective roles of the IMFC and

¹Governance has also been put on the agenda in other intergovernmental organizations, several of which have undertaken studies with a view to improving their governance arrangements. For example, governance assessments have been prepared for the World Trade Organization, the United Nations, and the Bank for International Settlements. See Sutherland et al. (2004), United Nations (2006), and Bank for International Settlements (2004).

Figure I. Stylized View of IMF Governance



Source: Martinez-Diaz, 2008.

the Board, and on how these bodies should interact with Management.²

²In recent years, numerous proposals for IMF governance reform have been put forward by former Fund officials, officials from member governments, academics, and nongovernmental organizations (NGOs). Background Document IV provides the highlights of some of these reform plans.

5. The remainder of this report is organized as follows. Chapter 2 introduces the analytical framework, methods, and data used in the evaluation. Chapter 3 briefly analyzes the main strengths and weaknesses of the overall IMF governance structure. Chapter 4 presents the main evaluation findings in regard to the IMFC, the Board, and Management, and Chapter 5 concludes with recommendations.