

IMF Governance: Outline of Current Structures and Practices

This annex provides a description of the IMF's governance arrangements. The institution's formal governance structure and practices are set out in its Articles of Agreement and in its By-Laws, Rules and Regulations.³⁰ This annex also makes reference to informal bodies that do not appear in the Articles, but which nevertheless play an important role in the Fund's governance.

Board of Governors. The Board of Governors is the Fund's highest governing body, which is composed of one Governor and one Alternate for each of the Fund's 185 member states. The Governors, who are typically finance ministers or central bank governors appointed by their governments, meet annually and select a chairman from within their ranks. The Board of Governors has delegated most of its powers to the Board.³¹ However, this delegation does not imply that Governors have abdicated their overall responsibility for stewardship of the organization.

International Monetary and Financial Committee. The IMFC is composed of 24 Governors; its structure mirrors the constituencies of the Board. Like the Interim Committee, which it replaced in 1999, the IMFC is charged with advising the Board of Governors on matters related to the management of the international monetary and financial system.³² The IMFC meets twice a year and issues a communiqué at the end of its meetings. There is no formal voting at the IMFC, as the Committee is only an advisory

forum and operates by consensus. The **Development Committee** was established by resolution of the Board of Governors to advise the Governors of both the World Bank and the IMF on critical development issues and on the financial resources required to promote economic development in developing countries.³³ In practice, however, Governors and the IMF Board, Management, and staff view the Development Committee as primarily occupied with the work of the Bank.

Executive Board. The Board is responsible for "conducting the business of the Fund" in accordance with the powers delegated to it by the Board of Governors.³⁴ It is composed of 24 Directors, 5 of whom are appointed by the IMF members having the largest quotas, and 19 of whom are elected by the other members organized in constituencies.³⁵ Appointed Directors serve at the discretion of their governments, while elected Directors serve renewable two-year terms. In addition to the Directors, the Board has a staff of over 240, which includes Alternate Directors, senior advisors, advisors, and administrative staff, many of whom informally represent their countries. The Board meets "in continuous session," which in practice means about three times a week. Its responsibilities include setting strategy and monitoring strategy implementation, conducting bilateral surveillance (i.e., Article IV consultations) and surveillance of the international monetary system as a whole, approving the use of Fund resources by members, appointing the MD, providing institutional oversight, and setting administrative policy.

Voting power in the Board is determined by members' quotas, which range from almost 17 percent for the United States to less than 1.5 percent collectively

³⁰In particular, Article XII. A more detailed description of the Fund's governance arrangements can be found in Mountford (2008a). Mountford (2008b) discusses the historical evolution of the Fund's governance. Abstracts of these and the other background papers prepared for this evaluation are in Annex 2; the papers themselves are posted on the IEO website at www.ieo-imf.org.

³¹Governors have retained the power to approve quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws. Their voting generally takes place by mail-in ballot. The Board of Governors also elects or appoints executive directors and is the ultimate arbiter on issues related to the interpretation of the Articles.

³²The IC/IMFC was intended as a provisional body, to be replaced eventually by a decision-making ministerial-level Council.

³³IMF (1974).

³⁴Articles of Agreement, Article XII, Section 3.

³⁵The United States, Japan, Germany, France, and the United Kingdom appoint their own EDs. China, Russia, and Saudi Arabia have each chosen to elect a Director that represents only their country.

for 23 (largely Francophone) countries in Africa.³⁶ The Chair of the Board is charged with steering discussions towards achieving as wide a consensus as possible, and very seldom is a formal vote taken. At the conclusion of a meeting, the Chair ascertains the “sense of the meeting,” and a “summing up” is prepared which reflects the views of the (quota-weighted) majority, as well as minority views.

Countries are free to choose the constituency to which they belong, taking into account regional and other considerations (and in agreement with the other members in the constituency). Each constituency has the freedom to decide how and from which countries to select its Director, as well as which rotation scheme to use when filling other positions. In general, these schemes reflect the relative quota of each member country in the constituency, and practices vary widely. Countries are not allowed to split their vote—Directors must cast the votes of their countries as a single unit. Therefore, Directors representing multiple countries must weigh the interests of all the countries they represent when deciding what position to take. Each constituency also has its own arrangements regarding Director consultations with the country authorities.

Management. While the Articles only make explicit reference to the Managing Director, in this evaluation we refer to “Management,” which comprises the

³⁶Given the current distribution of voting power, it is possible for a fifth of the member countries to muster a majority of the voting power, which is enough to make many important decisions, including in regard to lending. Special majorities of 70 and 85 percent of the vote are needed for some decisions, including those involving significant institutional change.

Managing Director (MD), a First Deputy Managing Director (FDMD), and two Deputy Managing Directors (DMDs), and their staff. Under the Articles, the MD is both the non-voting Chair of the Board and the chief of the operating staff of the Fund. He is charged with conducting “the ordinary business of the Fund” under the “general control” of the Board.³⁷ Like the staff, but unlike the Executive Directors, the MD owes his duty “entirely to the Fund and to no other authority.”³⁸ Through an informal convention dating to the Fund’s establishment, the MD has always been European, and the FDMD has been a U.S. national since the creation of this post. Management is responsible for preparing policy and operational papers distributed to the Board, for the administration of technical assistance, for appointing and dismissing staff, and for the management of the organization. (The IMF **staff** numbers some 2,600 people and is known for its hierarchical, disciplined, and generally cohesive institutional culture. Key staff responsibilities include preparing policy papers, conducting the preparatory work for bilateral and multilateral surveillance, negotiating Fund arrangements on an *ad referendum* basis, and providing technical assistance to member countries.)

While not the focus of this evaluation, informal country groupings play an important role in the governance of the Fund. A number of informal **country groupings**, including the G-7, the G-20, and the G-24, meet regularly to coordinate positions and issue communiqués. They often bring issues to the attention of the Board and/or the IMFC.

³⁷Articles of Agreement, Article XII, Section 4.

³⁸Articles of Agreement, Article XII, Section 4(c).

ANNEX 2

Abstracts of Working Papers Prepared for the IEO Evaluation of IMF Corporate Governance

IMF Governance Structures and Practices

Chelsky, Jeff, "Summarizing the Views of the IMF Executive Board" (BP/08/05)

This note describes and assesses the process for summarizing the views of the Board. Accurate summaries of the Board's views are a key element of sound IMF governance. For these summaries to provide effective and legitimate guidance to the institution, they must be clear and reflect a sufficiently broad range of views from across the membership. Based on an analysis of a sample of Summings Up, the paper assesses the adequacy of current practice from the standpoint of ensuring continuity, clarity, and accountability of Board deliberations. It concludes that while the process seems to be working well on the whole, minority views are inconsistently reported, and consensus views and decisions are not clearly distinguished from those of groups of Directors.

Chelsky, Jeff, "The Role and Evolution of Executive Board Standing Committees in IMF Corporate Governance" (BP/08/04)

Numerous attempts have been made to improve the effectiveness of standing committees of the Board, but considerable dissatisfaction remains with their performance, particularly among members of the Board itself. Drawing on interviews, survey data, previous reviews of the Fund's Board committee structure, principles of good corporate governance, and experience in other multilateral institutions, the paper concludes that Board committees hold unrealized potential to improve the Fund's internal governance. The paper analyzes the factors affecting the effectiveness of Board committees and provides recommendations for improvement. These include measures to encourage Directors to take stronger ownership of Board committees, changes to the overall committee structure and improvements in committee work practices.

Clark, C. Scott, and Jeff Chelsky, "Financial Oversight of the International Monetary Fund" (BP/08/06)

This paper evaluates the IMF's accountability framework for financial audit and control and risk management. It describes the evolution of the Fund's system for financial audit, focusing on the External Audit Committee. It also compares the framework at the Fund to those in other international organizations. The paper concludes that the current structure of financial oversight is not robust because the owners of the institution are not represented in the audit process. It recommends ways to strengthen the current framework to enhance accountability and ensure more effective oversight by the shareholders of the Fund including by strengthening the role and capacity of the Board in oversight of financial audit and control.

Mountford, Alexander, "The Formal Governance Structure of the International Monetary Fund" (BP/08/01)

This paper provides a description of the Fund's current governance structure and practices, including the main decision-making organs as established by the Fund's Articles of Agreement. It reviews the composition and membership, powers, and activities of the Board of Governors and its advisory committees, as well as the size, composition, and main features of the Board. The roles and functions of the Managing Director and staff are also described.

Mountford, Alexander, "The Historical Development of IMF Governance" (BP/08/02)

This paper traces the evolution of the Fund's main decision-making organs and related bodies, such as the International Monetary and Financial Committee. It begins with the Fund's foundation, paying particular attention at critical junctures when the Fund's governance was modified in response to changes in the global economy.

Shakow, Alexander, "The Role of the International Monetary and Financial Committee in IMF Governance" (BP/08/03)

This paper examines the history and assesses the workings of the International Monetary and Financial Committee (IMFC). It concludes that IMFC meetings serve important governance functions, primarily as an event-forcing occasion, but that its role is limited by weaknesses in its structure and working practices. The IMFC's communiqués fall in a gray zone between directives and advice, which reduces accountability. Committee communiqués often provide unclear guidance on Fund priorities and strategy. Also, the Committee has done little to resolve major logjams and has not been source of strategic initiatives, which have more frequently come from informal groupings outside the IMFC. The paper outlines steps that could be taken to strengthen the Committee's effectiveness in these areas.

Benchmarking and Comparisons

Dalberg Global Development Advisors, "Lessons from Private Sector Governance Practices" (BP/08/07)

On the basis of an extensive review of codes of good corporate governance from around the world, this study identifies 14 principles and practices that are relevant to the IMF, taking into account the differences between the Fund and a private corporation or state-owned enterprise. The paper describes each principle, explains its logic, provides examples of their application, and identifies the questions that each principle raises for the IMF's governance. The paper also describes private sector processes and indicators for evaluating governance systems and those that may be appropriate for assessing IMF governance.

Martinez-Diaz, Leonardo, "Executive Boards in International Organizations: Lessons for Strengthening IMF Governance" (BP/08/08)

This paper compares and contrasts the Fund's Board with the boards of eleven other intergovernmental organizations. It identifies four key roles that executive boards are expected to play in these organizations—those of political counterweight, performance policeman, democratic forum, and strategic thinker—and assesses how well the boards are equipped to play these roles. The exercise generates three "models" of governance, each with a different set of comparative advantages. The paper concludes that the twin crises of effectiveness and legitimacy that the IMF is currently facing are related to the Fund's adherence to a particular model of governance. The paper offers

recommendations on how to strengthen the Board's capacity to play other key roles.

Fund Governance in Action

Bossone, Biagio, "IMF Surveillance: A Case Study on IMF Governance" (BP/08/10)

This study examines the role that the Fund's governing bodies have played in the conduct of surveillance and in the adaptation of surveillance frameworks over time. It examines not only formal governance structures, but also the key role played by informal country groupings in Fund surveillance. The paper concludes that while the current model of IMF governance has helped to build consensus on adapting surveillance policy to changes in the world economy, it has weakened the role of the IMF in delivering effective surveillance. Bossone identifies specific aspects of Fund governance that may be responsible for these shortcomings.

Bossone, Biagio, "Integrating Macroeconomic and Financial-Sector Analyses Within IMF Surveillance" (BP/08/11)

This study examines how the Fund undertook the integration of financial-sector issues into traditional surveillance of members' macro-economy, paying special attention to how the IMF's governing bodies performed during the process. This integration became imperative after emerging-market crises in the 1990s illustrated the importance of macroeconomic and financial-sector linkages. The paper concludes that the Board was an implementer and task-master, but it was not a source of strategic initiatives, which came from outside the Fund, primarily from informal country groupings. The Board's performance in this process was hindered by a lack of financial-sector expertise in the Board.

Bossone, Biagio, "The Design of the IMF's Medium-Term Strategy: A Case Study on IMF Governance" (BP/08/09)

This study analyzes the process through which the IMF's Medium-Term Strategy (MTS) was formulated, paying special attention to how the Fund's governance arrangements performed during this key episode of strategy formulation. The MTS, published in September 2005, provides a framework to enable the Fund to respond better to the needs of its members. The study portrays the MTS-formulation process as complex, internally driven, and difficult at the start due to initial managerial problems. These difficulties were eventually resolved through the decisive intervention of the Managing Director. While recognizing the strengths of the process, the study concludes that

a better organized, more open, and inclusive process, handled by the Managing Director from the outset, and benefiting from a more proactive Board, would have led to a broader and deeper review of Fund strategic issues, thus presenting members with a wider range of options for discussion.

Campbell, Katrina, "Managing Conflicts of Interest and Other Ethics Issues at the IMF" (BP/08/12)

This study assesses the IMF's structures, policies, and practices at the Board and management levels that are meant to prevent and managing misconduct and conflicts of interest. The paper compares IMF practices and policies with those of other international organizations, as well as industry best-practice guidelines. It finds that the Fund's governance system is not well designed to identify actual and potential conflicts of interest and ethical problems among Executive Directors and the Managing Director. In particular, whistle-blower protections are not in place, codes of conduct lack clarity, and the procedures for investigating and dealing with misconduct by an Executive Director or the Managing Director are not clearly delineated. The Board Ethics Committee does not appear to be active.

Cortés, Mariano, "The Governance of IMF Technical Assistance" (BP/08/13)

This paper examines the performance of the Fund's governance in the strategic management of the Fund's technical assistance (TA). It examines how corporate practices governing the Fund's TA have changed significantly over the last two decades. The paper concludes that while the Board has adopted stronger transparency and accountability practices, its strategic oversight over TA has not been effective. In particular, systematic stock-takings of TA activities and policies had long lags between them, and reporting

and evaluation at the project and country level were scant at best. The process of developing the criteria for allocating TA resources provides an example of the difficulty of defining exactly the purview of IMF Management as distinct from that of the Board.

Peretz, David, "The Process for Selecting and Appointing the Managing Director and First Deputy Managing Director of the IMF" (BP/07/01)

This paper reviews the formal and informal processes for selection and appointment of the Managing Director and First Deputy Managing Director. It examines the historical evolution of the processes and compares them to those in other international organizations and in the private sector. The study concludes that the processes are insufficiently transparent, encourage "deal-making" among top shareholders, and exclude qualified candidates on the grounds of nationality. Peretz reviews proposals made for improving the IMF process, notably by the working parties of the boards of the Fund and Bank, which produced a joint draft report in 2001 and identifies promising approaches to improving the process in future.

Stone, Randall W., "IMF Governance and Financial Crises with Systemic Importance, Summary" (BP/08/14)

This paper examines the performance of the Fund's governance during times of systemic crisis. Crises in systemically important countries pose acute governance problems because of the stakes involved, the amount of resources that must be mobilized, and the need for rapid decision making. The paper examines six cases of crisis in systemically-significant countries and illustrates how informal decision-making procedures take on prominence during these episodes. Because most shareholder input into decision making is confidential, however, there is an absence of effective *ex post* accountability.

ANNEX

3

Summary of Views from Civil Society Organizations

The IEO surveyed a sample of 32 civil society organizations (CSOs) from around the world to obtain their views on aspects of the IMF's internal governance.³⁹ Responses were received from nine organizations and individuals. To ensure candid responses, their identities have been kept confidential.

There was a general consensus among respondents that current channels of communication between the IMF (including the Board) and CSOs are inadequate and that formal consultation is lacking.⁴⁰ Several respondents called for a formal process for external stakeholders to consult with the IMF *before* policies are enacted. A common complaint was a lack of transparency in Board processes, which makes it difficult for CSOs to gauge whether their views are considered in Board deliberations. Many called for earlier release of Board minutes⁴¹ and for the release

of transcripts of Board meetings. Several CSOs viewed the IMF's approach to CSO relations as one-sided and, at times, "patronizing," rather than one of partnership. The accreditation process and involvement of the IMF's External Relations Department were also viewed as problematic, with some CSOs noting that their inquiries are sometimes regarded with suspicion.

Many respondents expressed the view that the IMF's governance structure is inadequate to hold the institution accountable for its decisions to stakeholders. They considered the selection process for the Managing Director to be fundamentally flawed and called for a more transparent and merit-based process. They also called for a process that allows Management to be held responsible by the Board and member countries for the operations of the Fund. Some respondents expressed the view that the Managing Director should not chair the Board.

Several CSOs argued that the Board of Governors, directly or through the IMFC, should evaluate the performance of the Board based on objective criteria. Some CSOs argued that the Executive Board should include more senior-level figures, and that the dual role of Executive Directors as both officers of the Fund and representatives of their governments compromised accountability. Many argued that weighted voting and the constituency system is anachronistic and should be replaced with a system of double-majority voting.

³⁹The questionnaire sent to CSOs appears in the background material to this evaluation, available on the IEO website at www.iew-imf.org.

⁴⁰This was consistent with the findings of an IEO survey of member country authorities, which found that almost two-thirds of respondents "rarely or never" meet with representatives of civil society. Members of the Fund's Executive Board were somewhat more open, with 18 percent indicating that they meet with or consult representatives of civil society "regularly" and 43 percent indicating that they do so "on an *ad hoc* basis." Respondents to a survey of senior IMF staff reported being similarly engaged.

⁴¹Currently, minutes of Board meetings are made available to the public after 10 years.

Transparency: Disclosure and Archive Policies

A necessary condition for public accountability is transparency of information, an area in which the Fund has made considerable progress over the past decade, with many Article IV staff reports, policy papers and summaries of Board meetings now published on the Fund’s website. As part of its shift to greater transparency, the Fund began to grant public access to its archives in 1996. Access has been gradually liberalized. Currently, Board documents more than five years old, Board minutes more than 10 years old, and other institutional material more than 20 years old are available to the public, on request. Confidential documents that meet these criteria are automatically declassified. Declassification of the relatively small number of documents classified *strictly confidential* or *secret* requires Management approval.

Views on further liberalization of the Fund’s disclosure policy are split. Just under half (48 percent) of Board members and 44 percent of member country authorities surveyed view the current level of public access to Fund documents as “adequate.” At the same time, large minorities support moving toward greater disclosure. Forty percent of the authorities and Board members surveyed responded that the range of documents that are made public should be expanded; there were similar levels of support for reducing the amount of time before documents are made available. Over 40 percent of staff also believes the amount of time before documents are made public is excessive.

In any case, much can be done to facilitate public access to available materials, even within existing

rules. For example, the archives page on the Fund’s external website could be made more user friendly, and responses to requests in languages other than English could be accepted. The website addresses the needs of “researchers” (rather than members of the public, more broadly) and requests that individuals who seek access, to the archives participate in a “reference interview.” While the purpose of this interview is to assist in focusing the request, the language used could be seen as intimidating to some members of the public.

If document requests are relatively straightforward, IMF archivists respond by sending electronic files of publicly available documents. However, publicly available archival material is not routinely placed on the Fund’s website due to a perceived conflict between the Fund’s publications policy and its archives policy.⁴² This approach has the effect of undermining access to publicly available Fund documents, particularly for those outside of Washington, D.C. The Board should be encouraged to reconcile these two policies and adapt its archives policy to existing technology to realize both the spirit and the letter of the Fund’s disclosure policy.

⁴²According to the Fund’s Legal Department, neither policy was formulated with the other in mind. Since placement of material on the Fund’s website is considered “publication,” it is the publications policy that takes precedence, even when the document in question is publicly available. Since publication requires additional approvals, archival materials that are publicly available cannot be routinely placed on the Fund’s website.

Good Practice: Selection and Evaluation of Executive Directors, Alternates and Advisors

The effectiveness of Board members—Executive Directors, Alternates and their advisors—is strongly determined by the skills and experience of the individuals selected to fill those positions. Beyond what is contained in the Fund’s Articles of Agreement and By-Laws, there is currently no standardized job description for Executive Directors or Alternates. In 2003, an attempt was made by the Committee on Executive Board Administrative Matters (CAM) to lay down minimum basic responsibilities and qualifications for the professional staff in Executive Directors’ offices in order to “help authorities identify fully qualified candidates.”⁴³ However, agreement among Executive Directors could not be reached, even for voluntary guidelines. As a result, job criteria and selection processes are still determined exclusively by processes internal to each constituency and by the discretion of individual member-country authorities.

Given the importance of having appropriately qualified and experienced staff in the Board, the IEO evaluation team sought to identify examples of good practice in the selection of Board members. These involve clearly specified qualifications, a transparent process that encourages the selection of the best-qualified candidates, and a transparent process for evaluating performance. Policies and practices vary widely from constituency to constituency. Some constituencies do not have clear rules for staff selection, while others, such as the Nordic-Baltic constituency, maintain detailed job descriptions for each position in the Office of the Executive Director. Duties and

qualifications (such as macroeconomics and political economy expertise, language ability, and familiarity with the IMF’s policies and procedures) are clearly spelled out.

In terms of good practice in the selection of Directors and other officials, the guidelines adopted in 2003 by the constituency representing Anglophone Africa offer a good benchmark. These are described in detail in a publication prepared by their office.⁴⁴ The constituency has a rotation system under which each country has a turn nominating candidates for the position of Alternate. Immediately after completing his or her term as Alternate, each will also serve as Director for one term. Three nominees are put forward to be considered by a panel of six Governors from the constituency. If none of these are deemed suitable, the nominating country is given a “second and final chance” to present three candidates. If none these are deemed suitable, that country forfeits its turn in favor of the next country in the line. Successful candidates are then recommended to the full constituency.

In terms of evaluation, the constituency currently headed by the Director from Australia offers a good benchmark. The constituency has an informal performance evaluation framework in place for all professional staff. The framework is tailored by job position and based on the IMF’s Annual Performance Review template. Appraisals prepared by the Director can be shared with the evaluatee’s authorities. The Director has also agreed to be subject to a review based on input from his staff.

⁴³“Capacity Building Measures for the Offices of Executive Directors,” EB/CAM/03/5, June 26, 2003.

⁴⁴Africa Group I Constituency (2003).