Independent Evaluation Office
of the International Monetary Fund

ASPECTS OF IMF CORPORATE GOVERNANCE—INCLUDING THE ROLE OF THE BOARD

ISSUES PAPER FOR AN EVALUATION BY THE INDEPENDENT EVALUATION OFFICE (IEO)

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I. Background and Scope of Evaluation

1. This evaluation will review the IMF's governance arrangements. Governance is defined here as the institutional structure and the formal and informal relationships that govern the IMF's activities and decision making.

2. In the six decades since its founding, the IMF has seen important changes in its membership (from 44 to 185 members) and roles. In part to adapt to these shifts, the governance of the IMF has also evolved. Key governance changes include a doubling in the size of the Executive Board (the Board), the creation of first one and then two additional Deputy Managing Director positions, amendments to the formulas that guide quotas and voting arrangements, the adoption of measures to improve transparency, and accountability mechanisms, including the creation of an independent evaluation office. The International Monetary and Financial Committee (IMFC), and the Interim Committee before it, were created to provide advice on the management and adaptation of the international monetary system. A joint committee of the IMF and the World Bank was created at the same time to advise on the transfer of resources to developing countries. Members of these committees are governors, ministers or others of comparable rank.

3. Some observers have argued that the IMF's governance arrangements have worked relatively well, and that it has avoided some of the governance problems that have affected other institutions. For example, a constituency system has allowed for universal Board membership while avoiding decision making paralysis. Also, a lean management structure has allowed the IMF to adapt quickly to respond to financial crises. At the same time, other observers have raised questions about aspects of IMF governance. For example, they have argued that the Board is too absorbed in micro-management to provide effective oversight and strategic guidance.[1] They have also raised concerns about unclear lines of accountability[2] and about the lack of transparency in decision-making[3] and in the selection of the Managing Director (MD).[4] The evaluation will address the validity of some of these criticisms by focusing on the IMF's efficacy, efficiency, voice and accountability—the core issues of governance that seem most relevant to these concerns.

4. The IMF is not the only institution where governance issues have arisen. Stakeholders everywhere have come to demand sounder governance in private, public, and inter-governmental institutions. In the private sector, a broad consensus has emerged in the past two decades about what constitutes good governance, and this consensus is now embodied in a variety of codes and principles.[5] Elements of this consensus are seen as applicable to inter-governmental organizations, and several of them, including the World Trade Organization, the United Nations, the Bank for International Settlements, and the Organization for Economic Cooperation and Development, have recently taken a close look at their own governance.[6] Similarly, this evaluation will assess the degree to which existing governance arrangements at the IMF are consistent with widely accepted principles of good governance,

and it will seek to identify areas where they can be strengthened to help it better fulfill its mandate.

5. **Scope**. The evaluation will focus primarily on the relationships between Management, the Executive Board, and the IMFC, covering both *de jure* (written rules) and *de facto* (informal practices) governance arrangements. These bodies are at the center of the IMF's governance, and by focusing on them the evaluation should be able to address many key governance issues. Issues related to the Board of Governors, staff, and country groupings will be covered in the context of their interactions with the bodies mentioned above. The evaluation will not address issues of voting power or the ownership structure of the IMF, as these are currently under active consideration.[7]

6. The remainder of this Issues Paper is organized as follows. First, it provides a brief description of the basic components of the IMF's governance structure. Next, it presents the evaluation questions and discusses the proposed methodology. The final section outlines the proposed work plan.

II. Overview of IMF Governance

7. Article XII of the IMF's Articles of Agreement sets the basic structure of its organization and management. The **Board of Governors** is the IMF's highest decision-making body; it is composed of one governor and one alternate for each of the IMF's 185 member countries. Governors are appointed by their governments and tend to be finance ministers or central bank governors. The Board of Governors, which meets once a year, oversees the Executive Board, to which it has delegated most of its powers. The Board of Governors retains certain powers, including the election or appointment of Executive Directors, approving resolutions on the admittance of new members and the terms and conditions of their membership, the compulsory withdrawal of members, increases in IMF quotas, and amendments of the Articles of Agreement. It is also the ultimate arbiter on issues related to the interpretation of the Articles.

8. The **Interim Committee** was established in 1974 as the main policy advisory body to the Board of Governors, when the growing membership and the emergence of major new challenges rendered the Board of Governors impractically large. It also became a source of ministerial level guidance and feedback to Management and the Executive Board. The Committee was renamed the **International Monetary and Financial Committee** in 1999. It is composed of 24 members, who are also IMF Governors, and is chaired by one of its members. The IMFC's membership mirrors the constituency composition of the Board. Like its predecessor, the IMFC is charged with advising and reporting to the Board of Governors on matters related to the management of the international monetary and financial system.

9. A number of informal **Country Groupings** meet regularly to coordinate positions and raise issues to the attention of the Board and/or IMFC. These include the G7, the G10,

G11, the G24, and most recently, the G20. In recent years, the G20 has placed reform of the Bretton Woods institutions (the IMF and the World Bank) high on its agenda.

10. The **Executive Board** is the main decision-making organ of the IMF. This resident board usually meets three times per week and is charged with "conducting the business of the Fund."[8] Specifically, the Board is charged with the following: it selects the MD, it conducts surveillance of the international monetary system and the country level Article IV consultations, it approves the use of IMF resources, sets strategy and monitors its implementation, conducts oversight activities, and has administrative responsibilities. It is composed of 24 Executive Directors (EDs), 5 appointed by the countries with the largest quotas and the other 19 elected by their constituencies (3 of them are single-country constituencies).

11. The IMF's **Management** is composed of the MD, a First Deputy Managing Director (FDMD), and two Deputy Managing Directors (DMDs). The MD is both chairman of the Board and chief executive officer of the institution. Management is responsible for the preparation of policy and operational papers distributed to the Board, including those related to surveillance and requests for the use of IMF resources. It is also responsible for the administration of Technical Assistance, and for the management of the IMF. Through an informal convention dating to the IMF's establishment, the MD has always been a European, and the FDMD a U.S. national since the creation of this post.

12. **Staff** numbers some 2,900 people and comes from most member countries. It is divided into functional, area and support departments, 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 IMF arrangements on an *ad referendum* basis, conducting research, providing technical assistance to member countries, and standard setting and assessment.

III. Evaluation Questions and Methodology

13. The IMF's governance determines how goals are set; how strategies are designed, adopted and implemented; and how results and performance are monitored and evaluated. Good corporate **governance** should provide a framework and incentives to pursue these activities in an effective and efficient manner, ensuring that organizational units and individuals are held accountable and creating space for stakeholders' views to be considered. To assess whether this is the case, the evaluation will attempt to answer the following **high level questions**:

- Are the responsibilities of the IMFC, the Board, and Management clearly defined? Who sets goals and decides on strategies? What are the respective roles of the Board and Management in the day-to-day running of the IMF?

- Are governance arrangements conducive to good strategy formulation, implementation, and oversight? Are these activities discharged efficiently in terms of timeliness and financial costs?

- Does the Board operate effectively as a collective? Is there a mechanism to hold it accountable as a collective?

- How are EDs held accountable in their roles as country representatives and as officers of the IMF?

- What instruments does the Board have to monitor and evaluate Management? How are the Board's strategic and oversight roles complicated by the Board's executive responsibilities? Do Directors have access to the information and resources they need to perform these functions?

- Are adequate channels open to member states to express their views and to have those views considered, in particular to countries with little voting power but with intensive financial and policy relations with the IMF? Are there channels for other stakeholders, beside the authorities, to have their views and concerns considered?

14. To answer these questions, the evaluation proposes to **compare actual governance practices with three standards**. First, governance practices will be compared against the arrangements set forth in the Articles of Agreement and other IMF documents. The second comparison will be with the governance structures and practices of other inter-governmental organizations. These are probably the most closely comparable organizations to the IMF, but they may not necessarily embody best practice. The third comparison will be against principles of good governance developed in the private and public sectors, which would be adapted to make them relevant to the IMF. Together, these three standards for comparison should provide a robust set of insights, even if each of them on its own might have weaknesses as a benchmark for IMF governance.

15. The evaluation will rely on two main methods—**triangulation and process tracing**. Triangulation is a common evaluation technique, based on the principle that questions are approached through different and independent perspectives. For example, the same question will be addressed by comparing the IMF with both the private sector and other intergovernmental organizations. The same questions will also be posed to different stakeholders or agents whose views are likely to be independent from each other, e.g., staff, Executive Board members, and authorities. Concurrence in the findings of the different comparisons and in the responses to the different interviews and surveys would validate each other.

16. Process tracing is a standard analytical tool in history and political science and involves splitting up the policy-making process into small steps and looking for observable

evidence at each step.[9] In this evaluation, we will apply process tracing to a series of case studies that are substantively important but also highly illustrative of the IMF's strategic thinking, policy implementation, oversight, and accountability.

17. Evidence will be gathered through **archival research, surveys, and semi-structured interviews** with key stakeholders within and outside the IMF. Surveys and interviews will be conducted with current and past Executive Directors and their staff, country authorities, management, senior staff, and representatives of civil society. The evaluation will make use of standardized questionnaires which will be designed to elicit stakeholders' views about the quality and performance of IMF governance. The survey data will help guide and complement the other elements of this evaluation.

IV. WORK PLAN

18. The evaluation will be based on five building blocks which, together with a series of surveys, will inform a *chapeau* report with the main findings and recommendations (see Table). The first building block provides a detailed **description of the current IMF governance** and its legal authorizing environment (i.e., their underpinning in the Articles of Agreement and other key IMF documents). This study will describe the main governance organs of the IMF, as well as the relationships between them. Special attention will be given to the IMFC, the Executive Board, and Management. The paper will describe how these organs work in practice, addressing questions such as how are the agendas of the IMFC and the Board set and how are their communiqués and summings up of meetings prepared.

19. The second building block will provide a **historical overview of the evolution of IMF governance** since its inception. This study will examine how the structure, rules and practices that have governed the IMF have evolved over time and with what consequences for decision-making. The paper will devote special attention to the role of the Executive Board, including its relationship with Management and the Interim Committee/IMFC over the past two decades. Central to the analysis will be episodes in which major governance changes were introduced. Some of these episodes will also be addressed in self-standing case studies, providing an independent view on the same issues. This study will help develop the first standard for comparison—the IMF's mandate.

20. The next building block will help develop the second standard for comparison. It will compare the IMF's governance arrangements with those in a sample of **inter-governmental organizations** that share some functional commonalities with the IMF.[10] This study proposes a taxonomy of international organizations based on different governance "models." It then studies in greater detail the governance of organizations in each model and asks how other institutions have dealt with governance challenges similar to those faced by the IMF.

21. The fourth building block will develop the third standard for comparison by examining **principles of good governance** developed in the public and private sectors**.** The paper will undertake a comprehensive survey of good governance codes from around the

world and identify principles that are most relevant and appropriate, given the IMF's special characteristics. The paper will also provide case studies and examples of how these principles have helped private and public sector bodies deal with governance challenges similar to those currently faced by the IMF. It will also suggest how these principles might be relevant to the IMF.

22. The final building block will involve **a series of in-depth case studies** that examine how the IMF's governance arrangements work in practice. The case studies will be selected to exemplify key governance functions (strategic thinking, policy implementation, and oversight and accountability[11]). The case studies will also cover specific aspects of the operations of the Executive Board. Each case study will focus on one of these functions, but each is likely to provide information on others. The following studies are being considered:

Strategy formulation and implementation

- Integration of macroeconomic and financial-sector analysis in IMF surveillance
- Design of the Medium-Term Strategy and its monitoring framework
- Different roles of the IMFC vis a vis the Board of Directors and the Board of Governors

Policy implementation and operations

- Design, Approval and Monitoring of IMF Supported Programs (IMF Lending)
- Crisis Management: Decisions on policies, access, and conditionality
- Bilateral and multilateral surveillance (based largely on past IEO evaluations)
- Delivery of Technical Assistance (based largely on past IEO evaluations)

Oversight and accountability

- The selection process of the Managing Director and Deputy Managing Directors
- Management of fiduciary responsibilities, e.g., Audit and Risk Management
- Ethics and Conflict Resolution System. Arrangements for providing oversight over Executive Board and Management compliance with their respective codes of conduct, including roles of Ethics Officer and Ombudsman

Character and operations of the Executive Board

- Historical overview of the changing character of the Board
- Review of the role of Board committees
- Review of the summing-up process and the role of the Chairperson

Table. Overview of the Five Evaluation Components

Component	Contribution to evaluation
I. IMF governance today	Description of current governance arrangements and of its legal authorizing environment.
II. Historical analysis of IMF governance	Analysis of the evolution of IMF governance, including lessons from past experience in IMF governance reform.
III. Comparative analysis with inter-governmental organizations	Overview of the governance structure and practices in a sample of inter-governmental institutions sharing functional commonalities with the IMF; includes lessons learned from these experiences.
IV. Comparison with principles of good governance	Overview of private and public sector thinking about governance, including an identification of principles of good governance that may be most relevant and applicable to the IMF.
V. Case studies of governance functions	These case studies will explore how the IMF's governance organs are working in practice, and whether they are adequately performing the governance functions of strategic thinking, policy implementation, and providing oversight and accountability.

[1] See, for example, Leo van Houtven, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*, (Washington, DC: International Monetary IMF, 2002) and Mervyn King, "Reform of the International Monetary Fund," speech delivered to the Indian Council for Research on International Economic Relations, New Delhi, India, February 20, 2006.

[2] See, for example, Eric Santor, "Governance and the IMF: Does the Fund Follow Corporate Best Practice?," Bank of Canada Working Paper 2006-32, September 2006; David Dodge, "The evolving international monetary order and the need for an evolving IMF," Lecture to the Woodrow Wilson School of Public and International Affairs, Princeton University, 30 March, 2006; Jack Boorman, "IMF Reform: Congruence with Global Governance Reform," in Colin I. Bradford, Jr. and Johannes F. Linn, *Global Governance Reform: Breaking the Stalemate*, (Washington, DC: Brookings Institution, 2007); "High-Level Panel on IMF Board Accountability," New Rules for Global Finance, April 10, 2007; and Murilo Portugal, "Improving the governance and increasing the influence of developing countries in IMF decision-making," paper prepared for the G-24.

[3] See, for example, Ngaire Woods, "Making the IMF and the World Bank more accountable," *International Affairs*, 77,1 (2001), pp. 83-100 and Devesh Kapur and Moisés Naim, "The IMF and Democratic Governance," *Journal of Democracy*, 16:1 (January 2005), pp.89–102; and "European CSO open statement on governance reform of the IMF," July 17, 2006 (statement by 55 European civil society organizations).

[4] See, for example, Michel Camdessus, "International Financial Institutions: Dealing with New Global Challenges", Per Jacobsson Lecture, September 25, 2005; "European CSO open statement on governance reform of the IMF," July 17, 2006; Miles Kahler, *Leadership Selection in the Major Multilaterals*, (Washington,

DC: Institute for International Economics, 2002); and Kenneth Rogoff, "Wolfowitz and the World Bank at Bay," *Project Syndicate*, April 19, 2007.

[5] Milestones in corporate governance include the *Report of the Committee on the Financial Aspects of Corporate Governance* ("Cadbury Report," U.K., 1992); the *Recommendations of the Committee on corporate governance chaired by Marc Vienót* ("Vienót Report", France, 1999); *German Corporate Governance Code* (2002); the *OECD Principles of Corporate Governance* (2004); the *Revised Corporate Governance Principles*, Japanese Corporate Governance Committee (2001); and the UK Financial Reporting Council's *Combined Code on Corporate Governance* (2006).

[6] See, for example, "The future of the WTO: Addressing institutional challenges in the new millennium," Report by the Consultative Board to the Director-General Supachai Panitchpakdi, World Trade Organization, 2004; "Comprehensive Review of Governance and Oversight," United Nations, 2006; "Review of the Governance of the Bank for International Settlements," Bank for International Settlements, October 21, 2004; and OECD Resolution of the Council on a New Governance Structure, Organization for Economic Cooperation and Development, 2006.

[7] As noted in paragraph 11 of the IMFC communiqué of April 14, 2007: "… The Committee reiterates the importance of implementing the program of quota and voice reforms adopted by the Board of Governors in Singapore, in line with the timetable set out in the Resolution..." and "The Committee also stresses the importance of enhancing the voice and participation of low-income countries…"

[8] IMF Articles of Agreement, Article XII, Section 3.

[9] See, for example, Andrew Bennett and Alexander L. George, "Case Studies and Process Tracing in History and Political Science: Similar Strokes for Different Foci," in Colin Elman and Miriam Fendius Elman, eds., *Bridges and Boundaries. Historians, Political Scientists, and the Study of International Relations* (Cambridge, Mass.: MIT Press, 2001).

[10] A tentative list of the organizations to be covered includes the World Bank, the Bank for International Settlements, the Global Environmental Facility, regional development banks (AsDB, IADB, EBRD, AfDB), the United Nations Development Programme, the Organization for Economic Cooperation and Development, the World Trade Organization, the European Investment Bank, the World Health Organization, and the International Atomic Energy Agency.

[11] Strategic thinking refers to the setting of goals and the provision of guidance and direction that are most appropriate for the institution given its mandate and external environment. Policy implementation refers to the translation of strategic goals into actionable tasks, as well as to their execution. Oversight involves monitoring the decisions and performance of an agent, and accountability refers here to the act of holding an agent responsible for his or her actions and decisions.