

## IEO Calls for Changes to IMF's Governance

A new IEO evaluation assesses the Fund's governance arrangements and identifies areas where they can be strengthened to help the Fund better fulfill its mandate. As IEO Director Tom Bernes pointed out at the launch of the evaluation report, the needed follow-up for this evaluation requires the active involvement of the ministers and heads of central banks who comprise the IMF Board of Governors.

Over the last 60 years, gradual reforms in the IMF's governance allowed the Fund to remain relevant in a changing world economy, but the reforms have not kept pace with changes in its mandate and in the environment in which it operates. Today, the IMF finds itself at a juncture, with its legitimacy and

relevance being questioned. Much attention has recently been focused on quotas and voting power, but broader governance reform also calls for strengthening the Fund's legitimacy, accountability, and effectiveness.

The evaluation analyzes the roles of the Fund's three main governance bodies and their interrelationships: the International Monetary and Financial Committee (IMFC), which is the main body for ministerial engagement in IMF decision making; the Executive Board, which is the full-time representative body to which the shareholders have delegated most of the responsibilities over the business of the Fund; and the Office of the Managing Director. It assesses: to what degree do the Fund's governance arrangements allow the institution



*Project leader Ruben Lamdany (left), Leonardo Martinez-Diaz (right) and Bob Garrat (far left) with Tom Bernes, IEO Director (center) participate at a workshop organized by the IEO in preparation of the new evaluation of the IMF Governance.*

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## Follow-up to IEO Evaluation of Structural Conditionality in IMF-Supported Programs

In May 2008, the IMF Board of Executive Directors discussed the implementation plan for the Board-endorsed recommendations made by the IEO's 2007 evaluation of *Structural Conditionality in IMF-Supported Programs*. In their discussion of Management's plan, Directors stressed the importance of ensuring that parsimony and criticality weigh heavily in the process of setting structural conditionality, and they agreed with the need for greater scrutiny of programs by the Board. Directors considered the strategy appropriate. In particular, they advised that:

- In light of the Fund's 2002 Conditionality Guidelines, structural

conditionality should focus on core areas of the Fund's expertise. Conditionality in the non-core areas requires strong justification and drawing "to the fullest extent possible" on advice from other multilateral organizations, particularly the World Bank.

- Directors agreed that any conditions added during subsequent program reviews should be adequately justified and anchored on the rationale provided in the original program documents.
- Directors welcomed the initiative to make the Monitoring of Fund Arrangements (MONA) database available to the public for documents already in the public domain.

- A number of Directors called for stocktaking at the time of the final program review, to compare stated program goals with achievements.
- Directors welcomed staff plans to revise the Fund's Operational Guidance Note on Structural Conditionality, and advised staff to include criteria for dealing with donor-driven conditionality and conditionality requested by the country authorities, as well as guidance on how to address critical areas of reform in which the Fund may not have the expertise.

For a full list of IEO recommendations for *Structural Conditionality in IMF-Supported Programs*, see <[http://www.ieo-imf.org/eval/complete/eval\\_01032008.html](http://www.ieo-imf.org/eval/complete/eval_01032008.html)>.

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to operate effectively and efficiently? To what degree do these arrangements render the IMF accountable, and do they give members and other affected stakeholders enough voice—that is, enough scope to influence decision making by IMF governing bodies?



## Main findings and recommendations

The evaluation finds that effectiveness has been the strongest aspect of IMF governance; the arrangements in place allow the Fund to act fast and consistently, particularly in times of systemic crisis. Conversely, accountability and voice have been its weakest aspects, which if left unaddressed would likely undermine effectiveness over the medium term. The

*“The main focus of this evaluation is the IMFC, the Board and Management...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.”*

—Tom Bernes, IEO Director

evaluation proposes a series of detailed measures specific to each of the main governance bodies. The main findings and recommendations are:

- There is a lack of clarity on the respective roles of the different governance bodies. To strengthen the IMF’s effectiveness and to facilitate accountability, these roles and responsibilities need to be clarified with a view to minimizing overlaps and addressing possible gaps.
- The Fund needs more systematic and formal ministerial involvement. The IMFC 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 ministerial-level Council that was contemplated in the Fund’s Articles of Agreement. The Council should strive to operate by consensus, perhaps through the use of special majorities.
- The Executive 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 Fund Management.

- 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.

Discussing the report in May 2008, the IMF Executive Board welcomed the findings as part of an effort to strengthen the IMF’s governance framework. The Board and the Managing Director issued a joint statement recognizing that the findings should be seen as “the beginning of a broader discussion” and expressing their commitment to work together in the coming months to develop “broadly shared ideas among the membership that will enable the Fund to advance further in building a stronger more effective IMF.”

*Governance of the IMF: An Evaluation*, including the Statement by the Managing Director, Staff Response, Statement by the External Audit Committee, and the Joint Statement by the Executive Board and the IMF Managing Director, is available at [http://www.ieo-imf.org/eval/complete/eval\\_05212008.html](http://www.ieo-imf.org/eval/complete/eval_05212008.html).

## List of Possible Evaluation Topics and 2008 Annual Report are now available

The IEO has posted a menu of Possible Topics for Evaluation at [http://www.ieo-imf.org/pub/pdf/work\\_pro08.pdf](http://www.ieo-imf.org/pub/pdf/work_pro08.pdf). The deliberately broad list reflects the many suggestions received from outside stakeholders as well as IMF Executive

Directors, Management, and staff. Additions to IEO’s work program will be finalized later in the fall. Any comments and further suggestions would be greatly appreciated and can be sent to [feedback@ieo-imf.org](mailto:feedback@ieo-imf.org).

The IEO’s fifth annual report, just published, summarizes the findings of IEO’s two most recent evaluations, lists cross-cutting lessons highlighted in previous years’ reports, and discusses ongoing evaluation projects. The report also describes the new framework for monitoring and following up on the implementation of IEO recommendations approved by the IMF Executive Board. See <http://www.ieo-imf.org/pub/annualreports.html>.

# IMF's Interactions with its Member Countries

To achieve its objectives, the IMF depends in large part on having effective interactions with member countries. Interactions take place in the context of relationships established between the IMF and its 185 member countries. The nature and objectives of these relationships vary widely across the membership. Feedback from a variety of sources—including country authorities, civil society, and academics—suggests that these interactions could be improved, and both the importance of the interactions and their

shortcomings have been recurrent themes in previous IEO evaluations.

A new IEO evaluation will examine whether the interactions between the IMF and its member countries have been effective and well managed. It will assess the IMF's management of interactions that were carried out in different circumstances and for various objectives between 2001 and early 2008. It will use two metrics: (1) the Fund's own policies for managing interactions; and (2) the policies

and practices of other institutions such as the World Bank, Organization for Economic Cooperation and Development, Bank for International Settlements, and some central banks, together with private sector entities, and will consider some models of what best practice might be in this area.

A draft Issues Paper laying out the proposed main direction, areas of focus, and methodology is available at <http://www.ieo-imf.org/eval/ongoing/051508.pdf>.

## IEO Evaluates IMF's Trade Policy Advice

The IEO has begun an evaluation of the IMF's approach to international trade policy issues.

The IMF's mandate in trade policy issues has been much debated, with disagreements about whether the Fund has overstepped its proper role or not done enough. The Fund's advice on trade policy has also itself been controversial, with critics charging in particular that it is too doctrinaire and/or not even-handed in its approach to trade liberalization. And, with the increasing complexity of trade policy issues, questions have arisen in recent years as to whether IMF staff have the capacity to address trade policies systematically enough.

The evaluation, which covers the period 1996-2007, will focus on the following questions: is the IMF's role in trade policy clear? How well has the IMF addressed trade policy issues? How well does the IMF cooperate with other international organizations, particularly the World Trade Organization, in its work on trade policy? And has the IMF's trade policy advice been effective?

The Issues Paper laying out the main directions, areas of focus, and methodology for the evaluation is available at [http://www.ieo-imf.org/eval/ongoing/Trade\\_IP.pdf](http://www.ieo-imf.org/eval/ongoing/Trade_IP.pdf).



Trade evaluation project leader, Susan Schadler, speaks to participants from academia, think tanks, NGOs and other multilateral organizations at trade workshop organized by IEO in April 2008.

## Periscope

In March, IEO Director Tom Bernes met with the UK's new Independent Advisory Committee on Development Impact (IACDI) to share the IEO's experiences. This Committee advises the UK Government on the overall strategy, approach, and priorities in the evaluation work done by the Department for International Development.

In April, Tom Bernes attended the meeting of the Evaluation Cooperation Group held in Tunis, Tunisia. Also in April, IEO Assistant Director Ruben Lamdany presented the

findings of IEO's evaluation of *Structural Conditionality in IMF-Supported Programs* to the Board of the African Development Bank.

In July, Tom Bernes and Ruben Lamdany discussed the IEO evaluation of *IMF Governance* with the UK authorities and civil society organizations. Mr. Lamdany also delivered a presentation of this evaluation at the European Central Bank in Frankfurt and, in Brussels, at a workshop of the EU expert group on reform of international financial institutions, chaired by Deputy Governor of the National Bank of Belgium Luc Coene.

Additionally, Mr. Lamdany presented the findings of the evaluation of *Structural Conditionality in IMF-Supported Programs* at the All Party Parliamentary Group for Debt, Aid, and Trade of the UK House of Commons, at the Leonard Davis Institute for International Relations at the Hebrew University, and at a joint seminar organized by EURODAD and Bruegel, a Brussels-based think tank.

Also in July, Tom Bernes and IEO Deputy Director John Hicklin spoke on the "Bringing Balance to IMF Reform

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## We welcome your thoughts

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Panelists speak at a launch of the IEO's Evaluation of IMF Governance at the Center for Global Development (CGD) in Washington, D.C. (From left) Amar Bhattacharya, Director of the Intergovernmental Group of Twenty-Four on International Monetary Affairs and Development; Jo Marie Griesgraber, Executive Director, New Rules for Global Finance Coalition; Tom Bernes, IEO Director; and Nancy Birdsall, CGD President.

Debates" conference, which took place in Waterloo, Canada, and was sponsored by the Centre for International Governance and Innovation, New Rules for Global Finance, and Oxford University's Global Economic Governance Program. Mr. Bernes chaired the session titled "Regional Views on Governance Reform and Representation Issues." He also spoke at the Center for Global Development (see picture) and the Brookings Institution in Washington, DC.

In August, Tom Bernes and Ruben Lamdany met with authorities in Brazil, Argentina and Chile to discuss the evaluation of *IMF Governance*. Mr. Bernes presented the findings to the Board of the Central Bank of Chile while Mr. Lamdany spoke at the Center for Globalization at the Universidad Finis Terrae and at the Economic Commission for Latin America and the Caribbean, both in Chile, and at the Center for Financial Stability in Argentina.