INTERNATIONAL MONETARY FUND

IMF Governance—Summary of Issues and Reform Options

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- This paper summarizes the main governance challenges and reform options facing the institution. Once the sense of the Executive Board on these issues is clear, a report setting out its views and recommendations can be prepared for the IMFC.
- The paper does not seek to break new ground, but rather draws together the analysis and reform proposals in the reports of the Eminent Persons Group (headed by Trevor Manuel) and the IEO, and a range of other recent work on Fund governance. Lest the wide scope of these inputs result in a laundry list, staff has exercised judgment in selecting key issues and proposals, and in laying out some of the pros and cons.
- With reform of quotas/voting power on a separate track, the focus here is on the institutional framework through which members express voting power, weaknesses in which are seen by many to have eroded the Fund's legitimacy and effectiveness, thereby displacing the debate and initiative to outside entities. While an overall reform package would have to include quota shares, the key proposals discussed here aim to:
  - Increase political engagement and oversight—*a ministerial-level Council with decision powers or reformed IMFC practices and procedures*.
  - Enhance Board effectiveness and representation—*a smaller Board, but with more emerging and developing country chairs*.
  - Modify voting rules—*greater use of double majority voting and a reduction in the 85 percent threshold for special majorities*.
  - Better delineate responsibilities—*enhance the Board's oversight role and capacity to advise the IMFC/Council, with more operational functions left to management.*
  - Open up management selection—*a truly open system, without regard to nationality, is a central demand*.
  - Tackle problems with mandate and institutional culture that limit the issues and approaches taken—*proposals cover a shift from Article IV's emphasis on exchange rate policies to a broader range of financial issues; establishment of jurisdiction over capital flows; and staff diversity*.
- The difficulty in being entirely objective about one's own role and function makes this a difficult paper for staff, management, and the Board to tackle. The undertaking is easy prey to caricature. However, there is no way around this. The Board has a valid stake, long experience, and a large body of outside analysis to draw on in framing its own report to the IMFC.

CONTENTS PAGE

I. INTRODUCTION

1. ***Why governance has become a key issue***. Although it seems curious that a debate on the running of the Fund—by whom, to what end, through what means—should intensify just as the institution is in a renaissance in the current global crisis, times of crises are precisely when a what-went-wrong mindset forces reassessment of basic structures and makes clear the stakes in getting these right. In fact, dissatisfaction with Fund governance well pre-dates the crisis, reflecting a sense of waning relevance (given ascendant private capital markets), effectiveness (demonstrated by the Fund's inability to tackle global imbalances), and legitimacy (with institutional structures described as "outmoded and feudalistic"). Partly as a result of shortcomings in vote, voice and process, debates that properly belong in the Fund have been displaced to more nimble entities such as the Gs, regional variants, and specialized groups. Even when the Fund showed itself to be crucial in crisis response, much of that responsiveness is seen to have been driven by political forces *outside* the institution—previously the G-7, now the G-20. Thus, the argument goes, if the Fund is slow to confront these issues, its standing may fade along with the current crisis. The April 2009 IMFC communiqué therefore asks that, beyond quotas,

" ... broader reforms to ensure International Monetary and Financial Committee active participation in the Fund's strategic decision making process should be promptly considered. The Committee calls on the Executive Board to report on this issue, as well as the Report by the Eminent Persons Group, and the work done by other groups, on enhancing the IMF governance structure by the next Annual Meeting in October 2009."

2. ***Scope of this paper***. The term "governance" potentially covers a vast range of issues. This paper focuses on a core set of issues that have received the most amount of attention, including the allocation of responsibilities between the Fund's various organs; the size and composition of the Executive Board; the selection of Fund management; and the design of voting rules. The paper also touches on the question of the Fund's mandate, which has a bearing on what issues and approaches are brought to the membership to exercise their voice and vote over. Further afield are issues such as consultation with civil society, transparency, and a host of internal organization issues (e.g., the qualification criteria for Executive Directors)—all of which surely bear on the Fund's workings, but risk diluting the core issues that the IMFC must come to grips with.

3. ***Quotas***. A key topic not covered here, but widely seen—including by the Manuel report—as *the* defining governance problem of the Fund, is the issue of fair quota share. The reasons for not taking it up in this paper are entirely practical: first, there is already a separate track for dealing with this long-standing, complex, and divisive issue; and second, the IMFC communiqué explicitly asks for a report on "broader reforms" (this after a paragraph on quota reform). Quotas may well dwarf other governance issues for many members, but all of the reports emphasize the importance of reforms along several dimensions. In the end, it is likely to be necessary to implement quota and the other governance reforms as a package, as

the Manuel report suggests, since there will be trade-offs and a piecemeal approach may actually worsen outcomes [Manuel ¶ 41]. However, in the meantime, it should still be possible to discuss the case for governance reforms beyond quotas, and to think about how these might be phased in.

4. ***Inputs***. This paper presents some of the pros and cons of various approaches that have been proposed in recent reports on Fund governance as neutrally as possible, without advancing any new proposals. For convenience, these reports—including from Trevor Manuel, the IEO, the Moser Group, civil society, Boutros-Ghali/Boorman, G20, UN/Stiglitz, and other academics—are summarized in Annex I; the position of these reports on key reforms is summarized in Table 1. Finally, civil society has expressed a range of concerns, especially regarding accountability at all levels (IMFC, Executive Board, management, and staff), mechanisms for responding to complaints and feedback from the broader public, and transparency. Given the diversity of interests, and to provide the Board unfiltered access to CSO views, a separate supplement prepared by these groups will be issued shortly. Based on the balance of opinion at the Board, the staff will prepare, for discussion in September, a more pointed paper containing the Board's views and specific recommendations.

II. Political Engagement and Accountability at the IMFC

Current structure

5. ***Issues***. Both the Manuel and IEO reports argue that crucial ministerial level engagement in Fund oversight and strategic decisions is missing, reflecting a blurred delineation of roles and responsibilities and missing processes [Manuel ¶s 8-10, IEO ¶ 65]. In their view, strategic decision-making is hindered by the fact that, as an advisory body, the IMFC does not have any decision-making authority and is not a forum for substantive negotiation. Thus, real policy coordination and debate occur outside the Fund's governance framework, in fora such as the G-7 and G-20 where the larger membership is absent, with IMFC meetings used more to finalize understandings and confer legitimacy. Similarly, according to these reports, accountability is undermined by the absence of a high-level political body that can exercise effective oversight of Executive Board decisions. While few would dispute that reforms are warranted, at issue is whether these justify a radical overhaul or whether the institution would be better served by a more adaptive approach to strengthening accountability and engagement at the IMFC.

A Ministerial-Level Council

6. ***Key elements and their rationale***. Many of the reports call for systematic ministerial involvement in strategic decisions, broad oversight, and coordination. To this end, the Manuel and IEO reports favor converting the IMFC into a ministerial-level Council, as

envisaged in Schedule D of the Articles of Agreement in particular (Box 1) [Manuel ¶s 13, 41; IEO ¶66].[1] The key elements of, and rationale for, the Council proposal are as follows:

- *Strategic decisions*. A focus on core issues—e.g. early warning, crisis response and coordination, the conclusion of multilateral consultations, the establishment of major new facilities like the Flexible Credit Line, and the selection of the Managing Director—is more likely to engage senior policy-makers, and more so if combined with a mandate to take decisions, not merely to opine [Manuel ¶s 16-19, IEO ¶ 66]. Such an agenda would be consistent with Schedule D's call to "supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity." There is flexibility in the scope of the Council's specific responsibilities, which can be adjusted in response to changing circumstances.

- *Re-configuration*. Manuel stresses the need to re-configure the Council in a manner that reflects economic realities—otherwise, key debates will continue to be displaced in outside fora [Manuel ¶s 21-22]. As the Council must, under the Articles, mirror Board constituencies, this would imply reconstituting the Executive Board, as discussed in Section III.

- *Size*. Just as the right composition is central to legitimacy, a tractable size is central to effectiveness. The IEO report notes that there is no consensus on the appropriate size of the Board—and hence on its mirror image, the Council [IEO ¶ 42]. The Manuel report calls for consolidation of both to around 20 chairs [Manuel ¶ 22].[2]

- *Legitimacy, consensus, voting*. Legitimacy would stem from key decisions being taken by the full membership, with inputs from the Fund's professional and politically neutral staff, not outsourced to smaller groups of countries [IEO ¶ 66]. While the IMFC's culture of decision by consensus would be retained, should a vote become necessary, representation would be enhanced by the Articles' allowance of split voting in Council constituencies (unlike in the Board). Both the Manuel and IEO

[1] The 2009 report of the High-Level Group on Financial Supervision in the EU, chaired by de Larosière, also recommended activating Schedule D, thereby transforming the IMFC into a decision-making Council [de Larosière ¶ 229]. The UN/Stiglitz report goes further, its notion is of the Council residing at the UN, covering all IFIs, and operating more like an "Economic Security Council" than the narrower entity envisaged in the Fund's Articles of Agreement [UN/Stiglitz, Chapter 4, ¶ 20].

[2] Separate structures for Council and Board, requiring an amendment of the Articles, would add a degree of freedom in balancing representation and size/effectiveness. However, this could cost dearly in terms of coordination across constituencies in the Council and the Board.

Box 1. Political Engagement—A Short History

Keynes. The early discussions on the decision-making structure of the Fund centered on J.M. Keynes' proposal for Executive Directors to be composed of senior policy makers. For the Fund to be effective, Keynes argued that it needed guidance from individuals "who were very high in confidence in their own Treasury and central bank and who were spending most of their time in contact with the formation of the high financial policies of their own countries." Accordingly, under the Keynes plan, only Fund Governors (i.e., ministers of finance or central bank governors) would be eligible to serve as Executive Directors and because persons of this seniority could not be resident in Washington, the day-to-day business of the Fund would be left to the management and staff. Harry Dexter White's competing proposal, which ultimately prevailed, proposed a resident Board, which can be understood as partly reflecting a desire by the membership to exert political control over operational decisions, not just longer-term strategic decisions.[1]

1978 Amendment. A proposal for a decision-making body composed of senior policy makers resulted in the introduction of Schedule D into the Articles at the time of the Second Amendment in 1978. Since the new rules for exchange rate policies required the Fund to exercise "firm surveillance" to ensure that members did not abuse the flexibility inherent in the new system, it was felt that a more senior decision-making body—a Ministerial Council—would be "better fitted to debate and decide issues" and would bring "additional strength to the Fund". Councillors were expected to be "bolder in their judgments" than Executive Directors.[2] The Council, to be composed of governors, ministers or persons of comparable rank, may be activated by the Board of Governors by an 85 percent majority of total voting power. Each member that appoints, and each group of members that elects, an Executive Director is entitled to appoint a Councillor. Schedule D envisages that the Council would be responsible for strategic issues; namely, to "supervise the management and adaptation of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity." The Interim Committee, later transformed into the International Monetary and Finance Committee (IMFC), has provided strategic direction to the Fund, but in a purely advisory capacity pending activation of the Council.

Recent debate. Calls have been made intermittently for the activation of the Council, including by the IMFC at the Hong Kong Annual Meetings in 1997. Some have expressed the view that a decision-making body composed of recognized political leaders would make more explicit the political responsibilities for key Fund decisions. A politically strengthened Fund—through the activation of a Council—has been perceived as being particularly urgent in an environment where existing global problems can no longer be addressed through the G-8 process and where the G-20 process lacks universal membership. The recent IEO Evaluation of Fund Governance also calls for the activation of the Council. According to the IEO, transforming the advisory IMFC into a decision-making Council would enhance both the legitimacy of the Fund and the accountability of Management and the Executive Board. It could also enhance the "voice" of individual members since, unlike in the Board where constituencies must cast their vote in a single block, Councillors may split their votes to reflect the views of the individual members.

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[1] Horsefield, J. Keith, *The International Monetary Fund 1945-1965. Twenty Years of International Monetary Cooperation*, Vol. I (1969), pp. 114, 124.

[2] Gold, Joseph, *Exchange Rates in International Law and Organization* (1988), pp. 122, 123; *Legal and Institutional Aspects of the International Monetary System: Selected Essays*, Vol. II (1984), pp. 540, 541.

reports suggest subjecting critical decisions to special majorities (see section IV) [Manuel ¶ 26, IEO ¶ 67].

- *Participatory leadership*. The Manuel report recommends a troika model—of past, current, and future heads—for the Council, akin to that in the G-20 [Manuel ¶ 20]. Regular rotation (two-year terms) and transparent selection processes would enhance participation and address concerns of dominance. The IEO report does not discuss the troika model but supports five-year term limits [IEO ¶ 67]. Either way, the leadership would set the agenda with input from the Board and management.

7. ***Institutional accountability***. In theory, the Executive Board is accountable to the Fund's Board of Governors in the performance of its responsibility for "conducting the business of the Fund". In practice, the Board of Governors is too large and unwieldy to offer effective oversight of the Executive Board, which has never been held to account for any of the advice and decisions adopted by it. As the IEO suggests, the Council could bridge this accountability gap, either directly or by mandating independent evaluators to report on Board performance; the Manuel group also suggests that the Board report to the Council on management performance [Manuel ¶ 37, IEO ¶ 65].

8. ***Objections***. The idea of activating a ministerial-level Council can be questioned both on grounds of practicality and principle:

- *Practicality*. The behavioral assumptions underlying the Council are debatable—would ministers and governors welcome accountability for global issues (not just domestic ones), take the time to learn details (on issues at times far afield from their daily concerns), and confront fellow ministers on controversial topics (rather than let Executive Directors familiar with one another handle these at the Board)? From this skeptical perspective, a Council is just lofty rebranding of the IMFC, with little hope of delivering the kind of engagement being sought. In addition, although the Manuel and IEO reports emphasize the importance of consensus in practice [Manuel ¶ 26, IEO ¶ 67], the voting process could become complicated were a vote to become necessary, given the capacity of Councillors to split votes. Split voting would, however, enhance the voice of small members.

- *Principle*. A somewhat different set of objections has to do with the perception that activation of the Council would weaken the Executive Board to the detriment of smaller members that rely on their resident Executive Director to understand the issues and influence decisions. It has been argued that a weakening of the Executive Board would also undermine the checks and balances on management and staff. Again, these issues would need to be addressed before proceeding with a Council. For example, it does not necessarily follow that the Executive Board would be "weakened"—indeed, most reports consider a more strategic, policy-oriented role for the Board as strengthening the body, not weakening it. Likewise, if the Board is given a stronger oversight role over management, as the Manuel and IEO reports argue for, then there would not be any undue concentration of power in staff and management [Manuel ¶ 37, IEO ¶ 69].

Alternative—IMFC reform

9. ***Elements and rationale***. An alternative to activating the Council would be to strengthen the IMFC, taking on board elements of the proposed Council. For while it may be true that, de jure, the IMFC is "merely" an advisory body, it is widely acknowledged to set the Fund's broad work agenda. It may be argued that nothing prevents it from exerting greater de facto control, demanding of the Board and management the kind of accountability and action that the Council proposal seeks to institutionalize. Thus, a recomposition of the IMFC, in parallel with the Executive Board, could raise its profile and effectiveness, bringing the most relevant players to the table while providing representation of the broader membership in constituencies. Unlike the Council, the size and composition of the IMFC could be dissociated from that of the Executive Board without an amendment of the Fund's Articles, adding a degree of freedom in the IMFC structure. Similarly, a troika leadership model to enhance participation could just as well be introduced at the IMFC as in the Council. Changes to the format of the meetings—replacing formalistic interventions that play to outside audiences with more informal exchanges on specific issues of importance to ministers—would enhance the value of these interactions. As with the Council, where the Board would play an advisory role, the Board could assist a reformed IMFC by distilling Fund analysis, framing strategic issues for IMFC deliberation, and providing assessments of its own and management's performance.

10. ***Counterpoints***. Without decisions and accountability at stake, the risk is that there will be limited engagement and ownership and no oversight of the institution. The status quo is likely to persist without greater peer review and mutual accountability. After all, de jure decision-making and oversight authority—such as those that the Council would have—exist because they concentrate minds and induce behaviors that looser arrangements do not. Moreover, as pointed out by the IEO, it is precisely because the IMFC is only an advisory body that it lacks the capacity to exercise oversight in a robust way [IEO ¶ 34]. Absent recomposition and an obligation to exercise decision making authority, a reformatted IMFC may not match the political heft of, say, the G-20 on responses to systemic risks.

III. VOICE AND ACTION IN THE EXECUTIVE BOARD

11. ***Role***. The Executive Board, where all 186 members of the Fund are represented, is the pivotal organ in the Fund's governance structure and is responsible for conducting the "business of the Fund" (Box 2). As such, its legitimacy and effectiveness are of central importance. Yet on both counts, as documented by the IEO, there has been criticism by some regarding: (a) the Board's size and composition—specifically that it is at once too large and too unrepresentative [IEO ¶s 27, 42]; and (b) the Board's functions—specifically that it is too

involved in organizational minutiae rather than in providing broad oversight and strategy [IEO ¶s 70-72].

Box 2. Responsibilities of the Executive Board

Broad allocation. The Articles set forth in broad terms the general allocation of responsibilities between the Fund's decision making organs: The Board of Governors is vested with "[a]ll powers under this Agreement not conferred directly on the Board of Governors, the Executive Board or the Managing Director" (Article XII, Section 2(a));[1] The Executive Board "shall be responsible for conducting the business of the Fund, and for this purpose shall exercise all the powers delegated to it by the Board of Governors" (Article XII, Section 3(a)); The Managing Director "shall be the chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Board, the ordinary business of the Fund" (Article XII, Section 4(b)).

Board decisions. For the most part, members exercise control over the decision making process through the Fund's Executive Board, as it has a central role in both policy formulation and in the application of those policies in the operational work of the Fund. Policy decisions may involve broad financial issues (e.g. approval of the general terms for the use of Fund resources) as well as regulatory issues (e.g. the approval of the 2007 Surveillance Decision). Operational decisions involve the day-to-day application of those policy decisions, be it in the financial area (e.g. the approval of a member's request for a Fund arrangement) or regulatory (e.g. the assessment of a member's policies under an Article IV consultation). The Executive Board is also responsible for policy decisions in administrative matters, such as approval of the budget and the broad employment policies of the Fund.

Delineation of responsibilities. As is clear from the provisions of the Articles, the Executive Board and the Managing Director exercise separate but closely related powers in the conduct of the business of the Fund. Although the provisions in Article XII could be further clarified so as to be made more prescriptive (through a formal interpretation pursuant to Article XXIX), the Executive Board has refrained from doing so. Rather, the delineation of the responsibilities of the Executive Board and management has evolved through the adoption of specific decisions by the Executive Board or, in the absence of such decisions, through practice. There are numerous examples where the scope of management's authority has been specifically defined through general decisions (e.g. the Guidelines on Conditionality) or through the Fund's Rules and Regulations (e.g. the modification to Rule N-16(d) authorizing management to accept requests for technical assistance from members without Executive Board approval). The Board has also adopted decisions that have had the effect of circumscribing the Managing Director's authority (e.g. the exceptional access policy created a limited but important exception to the previous practice whereby the Managing Director had exclusive authority to negotiate programs supported by the use of the Fund's resources).

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[1] Pursuant to Section 15 of the Fund's By-Laws, the Board of Governors has authorized the Executive Board "to exercise all the powers of the Board of Governors except those conferred directly by the Articles of Agreement on the Board of Governors". Powers conferred directly on the Board of Governors include decisions such as: changes to members' quota subscriptions; admission of new members; approving proposals to amend the Articles of Agreement; and compulsory withdrawal of members.

A. Size and Composition

12. ***Size***. The Board has doubled since its inception to the current 24 Directors, reflecting the imperative to provide representation to a growing membership (Box 3). There is no consensus as to the right size: according to the IEO, about half of Executive Directors think it is too large, while a slightly higher proportion of country authorities believe it adequately balances effectiveness and representation [IEO ¶ 42]. The corporate governance literature cited by the IEO, however, suggests that effectiveness declines above 12 Board members [IEO ¶ 40]. Several of the reports summarized here consider a downsizing to 20 chairs—which, in fact, is the number of chairs envisaged in the Articles of Agreement, and which can be exceeded only if an 85 percent majority of the Board of Governors agrees. Thus, the US, or any group of countries controlling more than 15 percent of votes, could force a return to a 20-chair Board at the next regular election in October 2010. Greater size reduction could in theory yield more tangible effectiveness benefits, but these may be outweighed by the concerns about adequate representation and managing sensible consolidation (see ¶ 13).

13. ***Composition***. Concerns center on three related areas.

- *The voice of emerging market and developing countries*. While the issue of under-representation is primarily related to quota shares, it also has a component relating to the distribution of chairs at the Board. Although it could be argued that, as a group, emerging and developing economies are not obviously underrepresented relative to economic weight (holding 10-12 chairs of 24 chairs, depending on rotation within constituencies), the reality is that most of these Executive Directors represent large constituencies. The largest face an extremely heavy workload given that those Executive Directors are the ones whose constituencies rely more on Fund advice and financial support. This limits the voice of the relevant countries and their ability to hold to account the Director representing them. Civil society thus argues for reshaping constituencies to ensure a more even distribution of countries.

- *Europe*. The perceived over-representation of this region is also a major theme of the studies covered in this paper [see e.g., Manuel ¶s 27, 41]. The EU occupies 8 chairs in the Board at present, compared to 2-5 for other regions. Calls for greater consolidation can be heard within Europe itself, the argument being that such consolidation, even if it results in a reduction in aggregate voting power, will enhance rather than weaken the voice of Europe in the Fund [Bini Smaghi, 2006]. The de Larosière Group, in arguing for greater consolidation, noted that the existing representation is not only fragmented but the EU as a whole is also perceived to be over-represented, to the detriment of emerging market economies [de Larosière ¶ 256].

- *Appointed chairs*. A major constraint on Board composition is the entitlement and obligation of the five largest shareholders to appoint their own Executive Director.

Box 3. Composition and Size of the Executive Board; Election of Executive Directors

Composition and size. The Executive Board is composed of both appointed and elected Executive Directors. The Board originally comprised 12 Executive Directors (five appointed and seven elected), but gradually increased to 20 between 1948 and 1964 to account for the Fund's growing membership, and remained at this level until 1978. While the Second Amendment enshrined this number (20) of Executive Directors into the Articles, the size of the Executive Board continued to increase between 1978 and 1992, when it reached its current size of 24 Executive Directors:

- ***Five Executive Directors***—are appointed by the members with the five largest quotas (Article XII, Section 3(b)(i)). In addition, up to two additional Directors may be appointed by the two largest creditors, if they are not already entitled to appoint an Executive Director (Article XII, Section 3(c)).[1]

- ***Nineteen Executive Directors***—are elected by the other members. While the Articles (from the time of the Second Amendment) set the number of elected Executive Directors at fifteen (Article XII, Section 3(b)(ii)), the Board of Governors has increased this number for each regular election since 1992 in accordance with the provisions of Article XII, Section 3(b) which permits the Board of Governors, by an 85 percent majority of the total voting power, to increase (or decrease) the number of elected Directors. In determining the appropriate size of the Board in the context of each regular election, the Board of Governors is to be guided by (i) the effective dispatch of the Executive Board's business, (ii) a desirable balance in the composition of the Executive Board, (iii) the size of constituencies, (iv) the freedom to form constituencies, and (v) a relative equilibrium in the voting power of the constituencies (Res. No. 36-3).

Elections. The provisions for the election of Executive Directors are set forth in Article XII, Section 3 and Schedule E of the Articles, and are supplemented by regulations adopted by the Board of Governors pursuant to Article XII, Section 3(d) for each regular election of Executive Directors.

- ***Schedule E***. This provides that persons receiving the greatest number of votes in any ballot are elected, subject to receiving a minimum and a maximum percentage of the eligible votes that can be cast. These percentages have traditionally been set at the average voting power of elected chairs, plus/minus a small margin to ensure that members are as free as possible to form the constituencies of their choice, while also achieving a relative equilibrium in the voting power of constituencies. Since the Second Amendment, these percentages have largely remained unchanged at 4 percent and 9 percent respectively.

- ***The Regulations***. These provisions, adopted by the Board of Governors for each regular election, typically modify the operation of Schedule E, which is specially permitted under Article XII, Section 3(d). The Board of Governors customarily permits the election of a Director even when the Director did not receive four percent of eligible vote, which is achieved by a Regulation that permits a candidate to be elected where the number of nominations and vacancies correspond. It is also customary for the Board of Governors to allow for the nine percent ceiling to be exceeded in specific circumstances, which is achieved by a Regulation that permits a vote cast by a Governor that raises the total votes received by a candidate from below to above nine percent of eligible votes to be deemed as not having raised the total votes received by more than nine percent for the purposes of paragraph 4 of Schedule E.

[1] Saudi Arabia was the last member entitled to appoint an Executive Director under this provision in 1990.

Thus, even if all European members supported full consolidation, this requirement would constrain the capacity of Germany, France, and the UK—under current quota shares—to do so.

14. ***Proposals and considerations***. The Manuel report supports reducing the size of the Board and enhancing the representation of emerging and developing countries by both eliminating appointed chairs and consolidating the number of European chairs [Manuel ¶ 22]. There are a range of approaches to consolidation, with very different implications for the decision-making process:

- *Mixed or homogeneous constituencies*. Constituencies within a homogeneous membership tend to speak with one voice, and therefore more forcefully and clearly than when multiple sensitivities have to be accommodated. On the other hand, constituencies comprising both creditor and borrower countries encourage mutual understanding and sensitivity to the needs of all sides, allowing the relevant chairs to take balanced positions and often contribute constructively to consensus building.

- *Concentrated or diluted voting power*. A consensus-based decision process benefits from the voting power of most chairs being within a relatively narrow range of each other. Thus, maximum and minimum voting power for elected constituencies are prescribed in Schedule E of the Articles, as modified by Regulations adopted for each regular election (Box 3). However, EU consolidation would result in a concentration of voting power and a more skewed distribution across chairs, possibly requiring modifications to the current approach.

- *European consolidation.* Although European consolidation would also concentrate their voting power and give the fewer European chair(s) a stronger veto power than the US currently holds, it is not entirely clear that this, were it to occur now, would enhance the voice of Europe in the Fund. The reason is that the process of integrating these countries' foreign economic policies is less advanced than that of integrating their economies. Premature consolidation of EU chairs could lead to the resulting few chairs unable to speak forcefully on key issues. Moreover, it would seem unreasonable and unrealistic to call into question the longstanding principle that constituencies are formed voluntarily.

15. ***A possible approach***. Consistent with the recommendation of both the Manuel Committee and the IEO, the Board may wish to consider the elimination of appointed chairs [Manuel ¶ 24, IEO ¶ 74]. This would eliminate the perceived inequity of the present "two-class system". This would not, in and of itself, result in greater consolidation of European chairs, but it would facilitate such consolidation when Europe is ready to do so. An all-elected Board will also likely influence the formation of constituencies beyond any European consolidation, opening the door to other single-member chairs accepting other countries. As

the Manuel and IEO reports note, this would also facilitate a reduction in the size of the Board. Taken together, significant progress could be made in reducing the burden of representation in large constituencies, improving voice and legitimacy, and enhancing effective decision-making. Of course, there remains the risk that voting power could become concentrated—which argues for the application of rules to avoid excessive concentration of voting power in individual chairs.

B. Role and Functions

16. ***Overstretch***. Beyond the criticism that there is no meaningful accountability for the Board's decisions and pronouncements (a point dealt with in Section II), a common thread running through many of the studies is that its effectiveness has suffered for lack of focus. In getting too involved in routine day-to-day operations, where it is perceived to have limited value-added, it has been unable to exercise genuine oversight over the work of management and staff and to hold them accountable. Correspondingly, the Board's involvement in setting strategic directions and policy formulation has been mostly reactive. Proposed remedies concern both the Board's mandate and its work practices. The focus here is on the former, since work practices probably are not a matter of interest to ministers and governors.

17. ***Strategic mandate***. The need to strengthen the strategy function of the Board is a recurring theme, especially in the Manuel and IEO reports. The former argues for a primary role for the Board in advising the Council on emerging/strategic issues and in preparing its work—for instance, the preparatory stages of critical Fund policies and reports to the Council on cross-cutting themes in recent Article IV consultations [Manuel ¶ 37]. As indicated in both reports, a key motivation for giving management more decision-making authority over operational issues is to free up the Board to advise the Council on strategic issues.

18. ***Oversight***. Many studies stress the need to reinforce the Board's oversight role, combined with reduced involvement in routine operations. The Manuel and IEO reports recommend introducing an accountability framework for the Board to track management performance and develop processes to strengthen independent oversight of agreed policies [Manuel ¶ 37, IEO ¶ 69]. Getting the Board away from the weeds of day-to-day operation is a necessary counterpart to any such move, both to free up time and to delineate responsibilities sufficiently clearly so that the Board could assess policy outcomes in an independent manner.

19. ***Boundaries***. Where to draw the line between routine operations for management and critical decisions for the Board is a delicate choice. The Manuel report suggests devolving surveillance to staff and management, with safeguards, as well as devolving the annual budget within a medium-term framework and overall compensation policy set by the Board [Manuel ¶ 33]. The Board, however, would continue to approve all decisions regarding the use of Fund resources. The IEO recommends that the Board should allow Board committees or management to take decisions that have little policy or systemic impact, giving

management responsibility for certain types of non-systemic country issues, such as approval of UFR program reviews and certain Article IV consultations [IEO ¶s 72, 77].

20. ***Competing considerations***. Any shift from an executive function to an oversight function involves trade-offs:

- *Surveillance*. The Manuel report proposal would eliminate the peer review process that has been a distinctive feature of Fund surveillance [Manuel ¶ 30]. Views differ as to the value-added of this peer review process [IEO ¶ 72]: in principle, it distinguishes Fund surveillance from the multitude of market, academic, and think tank analysis; in practice, many country authorities admit to paying little attention as far as surveillance of their own country is concerned [Bossone/IEO Background Paper 10, 2008, ¶ 85]. Moreover, concerns have been expressed that Board involvement undermines the independence of Fund surveillance. The IEO report suggests that management should have greater responsibility for certain types of non-systemic country issues, including completion of certain Article IV consultations (a survey conducted by the IEO found that only a fifth of Board members consider that the Board contributes significant value added to Article IV consultations) [IEO ¶ 72]. Thus, leaving to management the surveillance function could bolster independence and so candor. Allowing the Article IV consultation report to be discussed—not concluded—by the Board, as the Manuel report recommends, provides a safeguard for the relevant country or a group of Directors to voice any concern over staff advice and analysis [Manuel Table 1]. Broader quality control could be exercised ex post on a cross-country basis.

- *Use of Fund Resources*. The IEO proposes that straightforward, non-systemic, UFR decisions be taken by Board committees or management [IEO ¶s 72, 77]. To the extent that Board committees are given this function, this could result in greater efficiency but would not remove the Board from the process since these committees do not have decision-making authority and their recommendations would still need to be approved by the Board as a whole, even if on a lapse of time basis.

- *Committees*. Greater reliance on committees more generally—whether in the context of UFR or surveillance—could provide a means of, on the one hand, preserving the Board's executive authority (all recommendations of committees would need to be approved by the Board) and, on the other hand, giving it more time to exercise a more effective strategic and oversight role.

21. ***Resident versus nonresident Board***. Those who advocate that the Board should perform a greater oversight and less executive role point out that it would then be able to meet less frequently. That said, most come out somewhere between agnostic and antagonistic to the idea of a nonresident Board, presumably appreciating the loss of organizational insight that comes from daily engagement. However, prominent voices, taking their cue from Keynes' original arguments, have spoken in favor of a nonresident Board, for example,

Mervyn King (2006). The main advantage is the possibility of having as Executive Directors more senior officials, better positioned to provide strategic guidance and better plugged in to the policy-decision processes in their own countries. Other advantages would be a built-in incentive to focus on oversight rather than operational issues, as well as lower costs. But the disadvantages too are stark, including the risk of inadequate engagement by nonresident Directors and insufficient familiarity with underlying issues and considerations; emerging market and developing countries feel this cost would be greater in their case, given institutional limitations. A nonresident Board would also further advantage the host country in terms of access to staff and management.

22. ***Board chair***. The case has been made, mainly by some academics and civil society organizations, that lines of accountability would be clearer if the Managing Director gave up the role of chair of the Executive Board. However, so long as the Board retains operational responsibilities (and even the Manuel report leaves a very long list of such responsibilities), retaining the Managing Director as chair would be justified [Manuel ¶ 37]. The Manuel and IEO reports therefore propose special arrangements—e.g., having an Executive Director chair the Board, or Board committees—whenever the Board exercises a purely oversight function such as the assessment of management performance [Manuel Table 1, IEO ¶ 77].

IV. Voting Majorities

23. ***Current rules***. There is a widely-held view that voting majorities that apply to Fund decisions compound the Fund's legitimacy problems. Two issues have been identified. First, there is the fact that most decisions may be adopted by a majority of votes cast, i.e., by as few as 8 Directors. Second, the existence of key decisions that require an 85 percent majority is perceived as giving excessive leverage to the United States—although it gives such leverage also to any other small group of countries that is able to form a blocking minority (Box 4).

24. ***Consensus***. Although it is constantly emphasized that the Fund adopts decisions by consensus, the role that the above thresholds play in shaping that consensus should not be underestimated. As a proposal is developed and it becomes clear that it is supported by the requisite majority of the voting power, Directors originally against the proposal will often shift their strategy by signaling their support in exchange for concessions that meet at least some of their concerns. In brief, a consensus is formed "in the shadow" of the voting rules.

25. ***Reform considerations***. A word of caution at the outset is in order. With respect to decisions adopted by a majority of votes cast, this "default" rule was designed to ensure that the Fund can be decisive, thus giving confidence to the international community. More generally, experience demonstrates that, as the number of members of an institution increases, both practicality and effectiveness require moving away from unanimity. Reform should not result in paralysis. Regarding decisions that require special majorities, these thresholds may be seen as the price that the Fund pays to be given the authority to take the

Box 4. Voting Majorities

Majorities. The Articles of Agreement specify the voting majorities required for Fund decisions, with those decisions being taken on the principle of weighted voting power. The default rule is specified by Article XII, Section 5(c) which provides that "[e]xcept as otherwise specifically provided, all decisions of the Fund shall be taken by *a majority of the votes cast*". In accordance with this provision, votes not cast because of abstention, or because no Executive Director is entitled to cast the number of votes allotted to a member, are excluded from the calculation and are not treated as negative votes.

Special majorities. This refers to a majority other than a majority of the votes cast, and is necessary only when expressly required by a provision in the Articles—either 70 percent or 85 percent of *total voting power*.[1] Since decisions adopted by a special majority are calculated according to the "total voting power" of the Fund (as compared to the number of "votes cast"), votes not cast because of abstentions have the effect of being counted as negative votes.

Considerations. The preference for the "majority of the votes cast" standard to apply to all decisions "except as otherwise specifically provided" was based on a policy of ensuring that decisions could be taken and that the business of the Fund should be conducted with maximum facility. However, at the time the Fund was created, it was also felt that, on some policy questions with far reaching importance, a safeguard against hasty and unwarranted action was needed in the form of higher, or special majorities. Moreover, at the time of the Second Amendment, it was recognized that certain members would only be willing to confer enabling authority to the Fund if they had the assurance that they could control how this authority would be exercised. The categories of decisions requiring special majorities has increased since the establishment of the Fund through the First and Second Amendments. This may largely be attributed to the rationale that enabling powers give the Fund authority over its members that should be exercised only with the assurance that members having a large majority of the total voting power concur in the exercise or the motive to give a veto to one or a group of members which was accepted as a compromise. The number of special majorities themselves was streamlined by the Second Amendment to be either 70 percent or 85 percent of the total voting power.[2] The 70 percent standard was applied to important decisions that are not routine but are nevertheless not of the same importance as the decision for which the larger, 85 percent majority is required. The decision of which standard to apply to different categories of decisions was not applied with mechanical precision because of the necessity for compromise on certain provisions, and in any event opinions may differ in some instances about the application of the distinction.[3]

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[1] Subject to one exception, namely, the requirement of an absolute majority (that is a majority of total voting power) under Article XXVII, Section 1(c) (termination of the suspension of the operation of certain provisions) and one qualification, namely the requirement not only of an eighty-five percent majority of the total voting power but also a majority of the Governors for a compulsory withdrawal of a member under Article XXVI, Section 2(b).

[2] Before the Second Amendment, special majorities were absolute majority, two-thirds, three-fourths, four-fifths, and eighty-five percent, of the total voting power, and a unanimous vote under two provisions.

[3] IMF, *Proposed Second Amendment of the Articles of Agreement: Commentary*, p. 61.

relevant decisions. Indeed, a reason why the membership decided at the time of the Second Amendment to allow the Fund to retain the gold making up the subscriptions under the now defunct par-value system was that the amended Articles specified an 85 percent majority of the total voting power in order to sell this gold. There is a risk that the removal—or lowering—of special majorities could only be obtained at the expense of a reduction of the Fund's authority in certain key areas.

26. ***Double majorities***. The adoption of double majority voting is a proposal with far-reaching consequences—for many countries, it could eclipse quota shares in practical importance. The basic idea is to require a majority both in terms of (a) voting power and (b) an additional "democratic" metric that seeks to dilute the effect of a pure weighted voting system. (In this respect, it is analogous to "basic votes", which seek to moderate the effect of economic size in the voting process by giving every country, no matter the size, an equal number of basic votes.) The choice of an additional metric for purposes of designing a double majority is complicated because it depends on where the decision is being taken. For example, if the decision is taken by the Executive Board, a decision would require a majority of the voting power and a majority of Executive Directors; since Executive Directors cast their votes as a block, the additional metric could not be based on the number of members. However, the number of members could be used as an additional metric both with respect to decisions taken by the Board of Governors and decisions taken by the Council (given that Councillors may split their vote).

27. ***Implications***. A double-majority decision rule would significantly shift power from members with large quotas to members with smaller quotas. At least with respect to the decisions taken by the Executive Board, the degree of shift would depend on the steps taken to change the size and the composition of the Executive Board. Since such reform requires an amendment of the Articles, broad support would be needed. If such support exists, care would need to be taken to ensure that the introduction of a double majority system does not undermine the capacity of the Fund to respond quickly. Accordingly, the type of decisions that would require a double majority would need to be considered. Indeed, one would need to consider whether the objective would be more easily and effectively served by simply increasing the number of decisions that require a special majority, which would also require an amendment of the Articles.

28. ***Special majority threshold***. Perhaps because of the symbolic dimension of the US veto, it is frequently proposed, including in the Manuel report (and even more forcefully in reports by civil society), to lower the 85 percent special majority threshold to 70-75 percent [Manuel ¶ 26]. Such a change would require an amendment of the Articles and, accordingly, would require the support of the US (amendments of the Fund's Articles involve a double majority: three-fifths of the members, having 85 percent of the total voting power). Even if this support were forthcoming, the 85 percent threshold, which is often identified as being for the exclusive benefit of the US, actually increases the leverage of any group of countries

which, among them, can muster 15 percent of the total voting power. Lowering the threshold would reduce their leverage as well.

V. Management Selection and Staff Hiring

29. ***Managing Director***. Whatever the successes, the fact that the Fund's Managing Director has always been a European, and the World Bank's always a US national, has been problematic from a governance standpoint. More broadly, the perception that the US and Europe appoint whomever they choose to these positions—so far their own nationals—has brought into question the legitimacy of the process. In 2001, the Board "endorsed"—but did not adopt a formal decision approving—guidelines for a more open process (Box 5). However, these guidelines have never been implemented. Instead, the process has evolved to the point where the Board has adopted a procedure that specifies qualification criteria, establishes a nomination period, and provides for an interview process. Skepticism over the fairness of the process is unlikely to be resolved until the guidelines receive political backing and a different outcome is achieved.

30. ***Deputy Managing Directors***. There is a clear perception that these positions are unfairly reserved for certain nationalities. The most prominent example is the informal understanding the First Deputy Managing Director is a US national, which so far has always been the case. In recent years, a similar stickiness in national/regional representation has characterized the other two DMD positions (Japan in one case, Latin America in the other). The Managing Director's appointment of these individuals is subject to the approval of the Executive Board, given that they chair most Board meetings in the Managing Director's place. In practice, a firm political commitment—expressed through the Council/ IMFC or the Executive Board—that these positions are not reserved for certain nationalities could help.

31. ***Staff***. Although the staff has prided itself for its professionalism and political neutrality, it has not escaped criticism from various quarters, including country authorities and civil society organizations. Complaints have centered on staff's lack of country-specific knowledge (amplified by regional rotation), limited regional and academic diversity, and prior work experience. Groups such as New Rules for Global Governance have proposed an overhaul of human resource policies to promote diversity, especially first-hand country experience, reduce staff rotation, enhance staff accountability (e.g., by linking career progression and country outcomes), and allow for a wider range of views on economic issues. The Fund is already moving to increase regional and academic diversity and prior work experience (via hiring policies), and slow staff rotation (via minimum periods on desks and in departments). While the direction of change is clear, the pace of progress has been hindered by numerous factors, including difficult tradeoffs with calls that go in the other direction—e.g., downsizing and the hiring of staff with financial expertise in major money centers. Separately, the IEO has proposed that the Executive Board should play a more active role in the selection of the Fund's General Counsel and Secretary, given the special relationship that these two positions have with the Executive Board [IEO ¶ 78].

Box 5. Selection of the Managing Director

Legal framework. The legal framework for the selection of the IMF's Managing Director is set out in the IMF's Articles of Agreement and By-Laws: Article XII, Section 4(a) provides that "[t]he Executive Board shall select the Managing Director who shall not be a Governor or an Executive Director". Section 14(c) of the Fund's By-Laws provides that "[t]he contract of the Managing Director shall be for a term of five years and may be renewed for the same term or a shorter term at the discretion of the Executive Board, provided that no person shall be appointed to the post of Managing Director after he has reached his sixty-fifth birthday and that no Managing Director shall hold such post beyond his seventieth birthday."

Process. Although an Executive Board decision to select a Managing Director can be taken by a majority of the votes cast, in practice the selection of the Managing Director has been made by consensus. Typically, the process initially involves informal consultations among Governors, officials of members countries and Executive Directors. It is then followed by an informal deliberative process within the Executive Board and, in circumstances where there is more than one candidate under consideration, the process may involve the use of an informal voting procedure, consisting of one or more "straw polls" designed to identify the leading candidate. Once a consensus candidate emerges, a formal meeting of the Executive Board is convened where the Executive Board adopts the decision to select the Managing Director.

2001 recommendations. Following the selection of the Managing Director in 2000, Executive Directors established a Working Group to review the process for selection of the Managing Director. A similar Working Group was established in the World Bank to review the selection process for the World Bank President. A draft joint report issued by the Working Groups in 2001 recommended certain principles and procedures for the search and selection processes,[1] which was "noted" by the IMFC in its April 2001 communiqué. In the "Report of the Executive Board to the Board of Governors on Quota and Voice Reform" dated September 7, 2006 (Attachment VIII), the Executive Board noted the following: "There is considerable agreement on the importance of ensuring that procedures for the selection of the Managing Director are open and transparent. The Executive Board will consider whether further steps, beyond those discussed by the Boards of the Bank and the Fund in 2001 and the steps followed for the selection of the Managing Director in 2004, are needed to ensure a fully transparent process for the selection of the Managing Director, as part of the two-year program of governance reforms."[2]

For the selection of the current Managing Director, Mr. Dominique Strauss-Kahn, the Executive Board adopted a decision to define the selection procedure, which included the specification of a candidate profile, a process for nominations, and an interview procedure.[3]

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[1] *The Bank Working Group to Review the Process for Selection of the President and the Fund Working Group to Review the Process for Selection of the Managing Director— Draft Joint Report* (http://www.imf.org/external/spring/2001/imfc/select.htm).

[2] *Report of the Executive Board and Proposed Resolution on Quota and Voice Reform in the International Monetary Fund* (http://www.imf.org/external/np/pp/eng/2006/091406q.pdf, paragraph 19).

[3] *IMF Executive Board Moves Ahead With Process of Selecting the Fund's Next Managing Director*, IMF Press Release No. 07/159.

VI. FUND MANDATE

32. ***Overview***. The discussion so far has focused on governance reforms to enhance the Fund's legitimacy and effectiveness, given its mandate. But the Fund's mandate also bears on governance insofar as it affects the issues upon which the membership exercises its voice and vote. Thus, several reports have called for a review of the Fund's mandate. In light of the significant changes in the global economy over the past few decades, questions have arisen as to whether the Fund's mandate is appropriate to the times and, relatedly, whether the Articles need to be amended. These questions revolve around three areas: (i) perimeter of surveillance; (ii) jurisdiction over capital movements; and (iii) international reserve currencies. Many have begun to discuss these issues, including at the G-20, and it will take time to debate and resolve the underlying economic policy issues. One approach suggested in the G-20 paper is for the IMF to commission a group of experts to analyze the issues, which are likely to be contentious, and negotiate needed amendments to the Articles [G-20 ¶ 92]. A related proposal by the UN Stiglitz commission for an intergovernmental advisory panel of experts examines a host of critical economic and social issues [UN/Stiglitz Chapter 4, ¶ 19]. Such a panel would not undertake its own research, but rather would pool together available knowledge on the issues.

33. ***Surveillance mandate***. Central to the effectiveness of the Fund's work is its surveillance mandate. A point stressed by the Manuel and Boutros-Ghali/Boorman reports is that the Fund lacks an explicit mandate to oversee global financial stability in all its dimensions—not just exchange rate developments but also developments in the financial sector, capital flows and domestic macroeconomic policies [Manuel ¶ 2, Boutros-Ghali/Boorman p. 2]. The existing mandate to monitor members' obligations to promote " a stable system of exchange rates" forces the Fund to view macroeconomic developments through prism of their impact on exchange rates ("external stability" as defined under the 2007 surveillance decision). It should then not be surprising that linkages via financial channels and capital flows get shorter shrift—the transmission of the current crisis from the United States did not, for instance, occur via a dollar collapse, as the Fund had feared, but rather through financial sector de-leveraging and massive capital reflows from emerging markets to US safety. Thus, the case is made to broaden the Fund's surveillance mandate to give equal weight to macroeconomic and prudential policies and financial spillovers. Moreover, the current approach is perceived to undermine evenhandedness, given the fact that "firm" surveillance is only to be exercised over members' exchange rate policies, implying that there is closer scrutiny of members with fixed or managed exchange rates. A related question is whether the mandate with respect to multilateral surveillance needs to be clarified [de Larosière ¶ 50]. Proponents argue that, armed with such a mandate, the Fund's ability to build the necessary expertise in these areas would be enhanced.

34. ***Capital account jurisdiction***. As the Boutros-Ghali/Boorman report notes, many recent crises have been associated with poorly planned and sequenced financial liberalization [Boutros-Ghali/Boorman p. 4]. Extending the Fund's jurisdiction over the current account to

also cover international capital movements would facilitate oversight of such risks and cross-border spillovers. The objective would not be to champion the liberalization of capital movements per se, but rather to ensure that countries adequately assess domestic macroeconomic and financial risks ahead of liberalization. Granting the Fund such powers would require it to develop the capacity to effectively monitor capital account policies of members and ensure that any restrictions imposed are non-discriminatory. As noted by the Manuel Committee, given the Fund's role in providing financing when members face instability in the capital account, it is appropriate for the Fund to play a central role in advising members as to the pace of financial liberalization [Manuel Box 2].

35. ***SDRs and the global reserve system***. A final set of issues relates to the role of the SDR. Interest in the objective of making the SDR a principal reserve asset in the international monetary system (Article VIII, section 7, and Article XXII) has grown along with concerns about the long-term standing of the dollar as the world's premier reserve asset. The debate is in its early stages, with discussion pending on the how the global reserve currency system should be administered, what form a new stable reserve currency should take, how it might be produced and allocated, whether countercyclical rules of emission might be desirable, and how the transition to the new system could be managed [see for instance UN/Stiglitz Chapter 5, ¶s 30-54]. If the IMF were to be given an enhanced role in a new global reserve currency system, such as regular or countercyclical SDR emissions, then this could also have important governance implications (e.g., a less political and more independent central bank-type arrangement may be needed).

VII. Next Steps

36. ***Expectations***. Based on the IMFC's communiqué cited in ¶ 1, the Board's report to the IMFC would be expected to cover three key areas: how to obtain more high-level engagement at the IMFC (whether by activating the Council or some other means), what other reforms suggested in the Trevor Manuel report to take forward (or not), and how to handle the proposals put forward by others. In preparing its response, the Board will need to be mindful of the broader public expectations of change created by high-profile analysis from outside the Fund on righting the deficiencies in governance.

37. ***Specific input***. If staff are to prepare a report that captures the sense of the Board in a concise and pointed way, it will need the guidance of Directors on several specific points. Although these are listed below as free standing menu items, certain combinations may not work. For example, effectiveness and legitimacy might not be enhanced much if the Council were activated without changing its—or the Board's—composition; or if the size of the IMFC/Council and Board were to be reduced without changes in composition. Table 2 sets out the various measures needed to implement the reform proposals described in the paper.

- Do problems with legitimacy, engagement, and accountability warrant governance reforms beyond quotas? [¶1-¶2]

- Should the Council be activated or would a reformed IMFC suffice? [¶5]

- What areas should the Council/IMFC cover? How would it hold the Board and management accountable? Is recomposition and troika leadership desirable? [¶6-¶10]

- Should the Board be downsized and the chairs recomposed, with fewer EU chairs and more emerging and developing country chairs? How might this be achieved? Should appointed chairs be eliminated? [¶12-¶15]

- Should the Board perform less of an operational role and more of an oversight one? What functions might be devolved to management—surveillance? [¶16-¶22]

- Should double majorities be considered? If so, for what type of decisions? Should the 85 percent special majority threshold be lowered? [¶23-¶28]

- What specifically should be done now to open up the process for selecting the Managing Director and the Deputy Managing Directors? [¶29-¶30]

- What should be said with regard to increasing staff diversity? [¶31]

- Is a change in the Fund's mandate, as set forth in the Articles, needed? In what areas and on what timeframe? [¶32-¶35]

- Can these reforms be phased in or should they be treated strictly as a package?

- What other issues should be raised in the Board's report to the IMFC?

38. ***Moving ahead***. Reaching agreement on the above questions will be difficult—and even more so once it is recognized that the *full* governance agenda also includes quota reform. There is therefore a risk of protracted debate, positioning, impasse, and inaction. Directors may therefore wish to consider ways of guiding the process forward. Specifically, are there broad parameters—e.g., on the desired shift in quota shares to dynamic/emerging economies, the increase in total quotas, the size and composition of the Board, the role of IMFC ministers and governors in strategic decisions—that could be agreed upon at an early stage at the ministerial level to guide the process? Such an initiative could breathe new life into the overall process of governance reform in the Fund.

Table 1. Position of Reports on Key Governance Reforms

Issue	CIMFGR (Trevor Manuel)	IEO	CSOs / Thinktanks	Boutros-Ghali Committee	UN Commission (Stiglitz)	G-20 Working Group #3
Importance of quota and voice reform	Yes	Yes, though outside scope of paper	Yes	Yes	Yes	Yes
Greater ministerial involvement in the Fund	Yes	Yes	Yes	Merits "careful consideration"	Yes, with reference to UN-based Council	Yes
Activate decision-making ministerial-level Council	Yes	Yes	Mixed	Merits "careful consideration"	Yes, with reference to UN-based Council	Mixed
Reform IMFC	No	Yes			No	
Review composition of the Executive Board	Yes	Yes	Yes	Yes	Yes	Yes
Clarify roles and responsibilities of Board and Management	Yes	Yes	Yes			Mixed
More supervisory and advisory role for Board; delegate surveillance to managei	Yes	Yes	Yes			
Enhance accountability	Yes	Yes	Yes		Yes	Mixed
Resident Executive Board	Yes	Yes	Mixed			
MD selection process--open, transparent	Yes	Yes	Yes		Yes	Yes
Review decision-making rules	Yes	Yes	Yes		Yes	Yes
Review and possibly expand Fund's mandate	Yes		Mixed	Yes	Yes	Mixed
Increase staff diversity (skill sets, training, geographic background)	Yes		Yes		Yes	Yes

Table 2. Measures Needed to Implement Reform Proposals

Proposals	***Measures to implement proposals***
1. Quota and Voice reforms	
Complete 2008 Q&V reform	*Completion of the process for amending the Fund's Articles* (acceptance by three-fifths of members having 85 percent of the total voting power).
Accelerate next round of quota revisions to be completed by Jan 2011	Although no decision is required to accelerate quota revisions, the adoption of a *Board of Governors resolution* that actually proposes quota increases requires 85 percent majority of the total voting power.
2. Political Engagement	
Reforms of IMFC leadership: change leadership structure to troika model with 2-year terms and open, transparent elections	*Board of Governors resolution* requiring a majority of the votes cast (if Resolution 54-9 is to be modified); otherwise by way of an informal understanding among IMFC members.
Reforms to IMFC meetings: make more informal and interactive with concise, actionable background material	IMFC Chair may take initiative regarding recommendations for possible changes to the format of IMFC meetings.
Composition and size: disconnect structure of IMFC/Council (if activated) from the Board	• IMFC: *Board of Governors resolution* requiring a majority of the votes cast (as a revision to Resolution 54-9 would be required). • Council (if activated): *Amendment to Schedule D of the Articles* requires acceptance by three-fifths of members having 85 percent of the total voting power.
Activate the Council	*Board of Governors resolution* requiring 85 percent majority of the total voting power.
Define functions/roles of the Council (if activated)	*Board of Governors resolution* requiring a majority of the votes cast (to revise the delegation of power currently set out in By-Law 15 of the IMF's By-Laws).

3. Executive Board	
Facilitate consolidation of chairs by eliminating appointed chairs	*Amendment to Article XII, Section 3 and Schedule E*, requires acceptance by three-fifths of members having 85 percent of the total voting power.
Devolve surveillance function (conclusion of Article IVs, and WEO/GFSR) to management	*Executive Board decision,* by a majority of the votes cast, may determine that these functions may be performed by Management as part of the "ordinary business of the Fund" (Article XII, Section 4(b)).
Accountability of Board	If through Council, oversight of the Executive Board would be established as one of Council's functions as described in 2 above; if through IMFC as a regular function, *Board of Governors resolution* requiring a majority of the votes cast to revise Board of Governors Resolution No. 54-9 to include oversight of the Executive Board.
4. Management	
Make MD selection open, transparent, and irrespective of nationality	• If Council is activated and selection of MD to be vested in the Council: *Amendment to Article XII, Section 4(a)* which requires acceptance by three-fifths of members having 85 percent of the total voting power; and *Council decision* by a majority of the votes cast establishing a selection framework. • If Council is not activated: *Executive Board decision* adopted by a majority of the votes cast establishing a selection framework.
Make DMD selection process open, transparent, and irrespective of nationality	As DMDs are members of staff, *MD to formulate guidelines* for selection of DMDs; as DMDs may chair Board meetings, appointment continues to be subject to *Executive Board approval*.
Accountability of Management	*Executive Board decision* by a majority of votes cast, may establish framework to evaluate the Managing Director (already in place).

5. Voting rules	
Lower threshold on key decisions from 85 percent to 70 percent	*Amendment to relevant Articles:* requires acceptance by three-fifths of members having 85 percent of the total voting power.
Establish double majorities	*Amendment to relevant Articles:* requires acceptance by three-fifths of members having 85 percent of the total voting power.
6. Mandate	
Expand surveillance so as to eliminate primary focus on exchange rate policies	*Amendment to relevant Articles:* requires acceptance by three-fifths of members having 85 percent of the total voting power.
Expand jurisdiction over current account transactions to cover also capital movements.	*Amendment to relevant Articles:* requires acceptance by three-fifths of members having 85 percent of the total voting power.

Summaries of Governance Reform Recommendations in Various Reports

I. Report of the Eminent Person's Group (Trevor Manuel)

Findings. The IMF's advice has lost traction and effectiveness in recent years, reflecting drawbacks in its governance structure on several fronts, including inadequate voice and representation and hence ownership of emerging markets and developing countries; absence of high-level political representation that provides strategic and policy direction and oversight; excessive involvement of the Executive Board in day-to-day operational activities that undermines its effectiveness and in general a lack of clarity in the roles and responsibilities of the Board, IMFC, and Management; and the absence of a clear mandate for the Fund to oversee global financial stability in all its dimensions.

Recommendations. To enhance the leadership, legitimacy and effectiveness of the Fund in forging coordinated responses to shared problems, *a package of reforms* was recommended comprising:

- *Quota and voice reforms* to better reflect global economic realities: ratify promptly the April 2008 reform and bring forward the next quota adjustment to April 2010.

- *Re-composition of the Executive Board* to allow for greater representation of emerging market economies: remove the requirement of five appointed Directors and undertake constituency reforms to achieve needed consolidation of chairs, including European ones. Reduce the size of the Board to 20.

- *Activation of the ministerial-level Council* envisaged in the Articles of Agreement and adjustment to its composition in line with quota revisions. Adopt a troika leadership model, with regular rotation, and agenda setting by the leadership, with input from the Executive Board and management.

- *Clear delineation of roles and responsibilities*: give decision-making authority on surveillance and resource allocation to management; elevate the Executive Board from day-to-day operational decisions to advising the Council on strategic issues and overseeing management.

- *MD selection process*: make it open, transparent, and merit based. MD to be appointed by the Council.

- *Accountability*: Council holds Board accountable. Board oversees management through ex ante goal setting and ex post performance assessments.

- *Voting rules*: lower threshold on critical decisions from 85 percent to 70-75 percent; consider double majorities for a wider range of decisions.

- *Mandate*: expand Fund's surveillance mandate beyond exchange rates to provide equal coverage of macroeconomic policies, prudential issues, and financial spillovers. The capital account would fall within the mandate.

II. IEO Report: Governance of the IMF – An Evaluation

Findings: The IEO report on IMF governance evaluated the Fund's formal and informal institutional arrangements along four dimensions—effectiveness, efficiency, accountability, and voice. Overall, the report found effectiveness to be the strongest feature of the Fund's governance, whereas accountability and voice were found to be relatively weak. These weaknesses entail risks to the Fund's legitimacy, which, in turn, has a bearing on effectiveness.

- *Ministerial engagement was found to be weak*, except at times of systemic crises, leading to inadequate attention to key functions, such as setting the Fund's overarching goals and high-level oversight.

- *Reliance on informal decision-making structures in crises undermined transparency and ex-post accountability*. The Fund has been effective on account of its compact management structure, centralized control of the institution, and informal links with policy makers of systemic countries, which allow the Fund to react with speed and flexibility in a crisis. However, these informal communication channels led to a lack of transparency and ex-post accountability.

- *Political deal-making in the selection of senior management*, which also undermines transparency and legitimacy of the selection.

- *There are gaps and overlaps in responsibilities* between management and the Board, or the Board and the IMFC, that detract from effectiveness and efficiency, and undermine accountability.

- *The Board plays a largely reactive role*, leaving gaps in strategic guidance, monitoring of policy implementation, and oversight of Management.

Key conclusions and recommendations from this report are:

- *The Council should be activated*, as contemplated in the Articles of Agreement, to help set strategic directions and provide high-level oversight of the IMF, to strengthen its legitimacy and allow it to more effectively modify its role and mandate as new challenges arise. The Council should operate with a high degree of consensus, perhaps through the use of special majorities.

- *A framework to hold Management accountable* for its performance, as well as an open and merit based selection process for top management (Managing Director, and Deputy Managing Directors) should be put in place.

- *There is need for clarity on the respective roles of various governance bodies,* including the Board and Management, to minimize overlaps and address possible gaps.

- *The Board should be reoriented to take on 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.

III. Boorman Report to IMFC Chair Boutros-Ghali

Findings. The architecture of the global financial system has proven itself inadequate—the IMF must be comprehensively reformed, including its governance structure, to make its surveillance function and its crisis response mechanisms more effective.

Recommendations. The report supports the recommendations of the Manuel Report in general, including on accelerating quota and voice reform. Specific recommendations on other aspects of governance include:

- *The proposal for a Council, with decision-making powers, merits careful consideration* including its advantages and disadvantages for the effective functioning of the IMF and for improving the representation of the view of all member countries.

- *Considering the extension of IMF's jurisdiction over capital account issues*, with the objective of assisting members who chose to liberalize capital accounts to do so in an orderly manner, and within a consistent multilateral framework.

IV. G-20 Working Group 3

Recommendations. Besides calling for quota reforms as the others, the G20 members also emphasized the following governance reforms:

- *An open, merit-based selection processes for top management.* The appointment of the next Managing Director and Deputy Managing Directors of the IMF should be linked to a similar process for the selection of senior management in the World Bank and other MDBs.

- *A review of the structure and representation of the Executive Board and IMFC, as well as decision making rules*, consistent with comprehensive reform of the IMF, to more adequately reflect changing weights in the world economy, and ensure that emerging markets and developing countries have greater voice and representation.

- *Most G-20 members supported a review of the Fund's mandate in the international economy* and in the light of the lessons drawn from the crisis, including those relating to the international monetary system and the role of reserve currencies.

- *There was no consensus on the modalities for more consistent and effective engagement by Governors in the Fund's collaborative work.* Some members supported the activation of a Council of Ministers to elevate the level of policy dialogue in the Fund. Many others were of the view that such a Council of Ministers can only be established after meaningful quota, voice, and representation reform is achieved for emerging and developing countries. Yet others stressed the need to safeguard the role of the Executive Board.

- *The G20 did not agree to accelerate reforms aimed at improving operational efficiency and effectiveness of various governance bodies of the IMF.* Some members supported expediting work for better delineation of roles and responsibilities among staff, management, and the Executive Board, as well as a strong accountability framework. Other members perceived these efforts as micromanaging the Fund and that these issues were already being adequately considered by the Fund and IMFC.

V. REPORT OF THE STIGLITZ COMMISSION TO THE UN GENERAL ASSEMBLY

Findings. The current crisis has brought to the fore the failure of the global institutional and governance framework to ensure coherence and coordination in global policy making. Neither the G7 nor the G20 is a sufficiently inclusive steering group for addressing global systemic challenges.

Recommendations. Besides supporting quota and voice reforms, like the other reports, the Commission also suggests the following governance reforms:

- *A Global Economic Coordination Council to be set up within the United Nations at a level equivalent with the General Assembly and the Security Council, as a representative forum* to provide leadership on areas of concern in the functioning of the global economic system in a comprehensive and sustainable way. Representation in this Council could be based on a constituency system designed to ensure that all continents and all major economies are represented. In addition, active participation by IFIs, including the IMF, the World Bank would be crucial. As an interim step, an intergovernmental panel to assess and monitor systemic risks could also be set up to serve as an advisory body to the UN system, and IFIs.

- *IMF decision rules that extend double majority voting and eliminate effective veto powers* over amendments to Articles of Agreement can help strengthen ownership and compensate for voting imbalances. Double majority voting should be extended to the selection of the Managing Direction and the Chair of the IMFC, key policy decisions, and approving access to lending operations.

- *A merit-based, transparent process for the selection of senior management* with implementation of clear guidelines should be put in place.

- *The IMF should support countries in designing and implementing policies for national capital account management*, including in the use of price and/or quantitative instruments.

- *The implementation of a global reserve currency, which could be managed by the IMF, is needed to reduce the global risks* as the confidence and stability of the reserve currency would not depend on the economic policies in a single country.

VI. REPORT OF THE EXECUTIVE BOARD GROUP (MOSER)

Overview. The Executive Board, in its discussion of the IEO report on IMF governance, recognized that the report raised many complex and inter-related issues. In order to follow up, the Dean of the Board established a working group of Executive Directors with a mandate to review IEO recommendations and make suggestions on next steps.

The working group report grouped IEO recommendations into four categories based on operational modalities:

- *Recommendations requiring decisions by the Board of Governors or concerning IMFC procedures*. These included recommendations entailing the activation of the Council, and clarification of the respective roles of Board and management, and were to be referred to the Board of Governors/IMFC.

- *Recommendations concerning the effectiveness of the Executive Board were to be discussed at a Board retreat*. Specific issues in this category included developing more effective processes to provide oversight over implementation of agreed policies and strategies; and modalities to reduce the Board's direct involvement in day-to-day operations and frequency of Board meetings.

- *Recommendations that fell within the mandate of and were referred to existing Board committees/ working groups*. These included developing an accountability framework for management, ensuring independent advice for the Board, improved transparency measures, and a strengthened system for ethical oversight, and were referred to the appropriate committees/working groups.

- *Recommendations that need to be further assessed by new Board Working Groups* included issues in the area of strengthening the Board's committee structure, reviewing the Board's role in overseeing the selection and performance of the General Counsel and Secretary of the Board, and the selection processes for the MD and the DMDs.

VII. de Larosière: Report of the High-Level Group on Financial Supervision in the EU

Overview. The report provides advice on the future of European financial regulation and supervision. In that context, it notes that the Fund's multilateral surveillance did not function efficiently, as it did not lead to a timely correction of macroeconomic imbalances and exchange rate misalignments. Nor did concerns about the stability of the international financial system lead to sufficient coordinated action, for example through the IMF, FSF, G8 or anywhere else [¶ 31].

Recommendations. It makes the following recommendations vis-à-vis the IMF:

- *Surveillance*: the report calls for a far more effective and symmetric multilateral surveillance by the Fund covering exchange rates and underlying economic policies to avoid the continuation of unsustainable deficits [¶ 50]. Article IV reviews should survey the enforcement by member countries of international financial regulatory standards [¶ 238], with mandatory FSAPs for all countries on a fixed schedule

[¶ 245]. A comprehensive early warning mechanism should be set up by the IMF and FSF, building on bilateral and multilateral surveillance, though the key failure has not been a lack of surveillance but a lack of policy action [¶ 241]. The early warning results should be reported to the IMFC/Council [¶ 246].

- *Activation of the Council* to maintain political momentum and ensure accountability. The FSF should be enlarged and, along with international standard setters, be put in charge of promoting convergence of international financial regulation to benchmarks. It should regularly report to the IMFC/Council on progress made in regulatory reform implementing the lessons from the current financial crisis [¶ 228-229].

- *Consolidation of EU representation*: to strengthen the coherence and continuity of representation, re-arrange constituencies and reduce the number of Executive Board members for the EU to not more than two [¶ 256].

VIII. IMF Governance Reform— Views from Commentators, Think-Tanks and Academics

A common theme stemming from studies on IMF's governance reform is the emphasis on quota and representation (see Buira 2005, Truman, 2006 and the references therein, and Rueda-Sabater and others, 2009).

However, the literature also covers other important elements of reforming the IMF governance structure, perceived as having become "outmoded and feudalistic" over time (see El Erian, 2008). Key issues include: the activation of a Ministerial level Council, role of the Executive Board, voting rules, and appointment of senior management. This note summarizes the key recommendations on the latter set of topics, complementing the discussion of external recommendations for IMF governance in the IEO report.

Council

Several authors stress the benefits of the activation of a high level Council as envisaged in the IMF's Articles of Agreement. Specifically:

- Boorman (2008a) supports Camdessus (2000) in noting that a Council is needed to "assure that the IMF is seen far more visibly to have legitimate political support of its shareholders." He suggests that the Council's mandate would include setting the strategic goals of the Fund; taking those decisions that require support at the highest political level—such as appointment of a managing director—and exercising effective supervision over the institution, including the Executive Board. Councillors would be permitted to split the vote in their constituencies so that all countries would see themselves as participating in major decisions. The author also underscores the role played by the Council in coalition building based on a clear understanding that the Council would operate as much as possible on the basis of consensus and that voting should take place only in extraordinary circumstances.

- Bossone (2009) suggests that the Ministerial Committee of the IMF should be transformed into a Governing Council, representative of all Fund members, and with responsibilities to set strategies, oversee the Board, and coordinate international policies. He notes, however, that the formation of a Council may diminish the relevance of the Board and reduce the legitimacy of the IMF (without appropriate oversight of its responsibility to act in a manner consistent and fair to all its members), unless measures are taken to strengthen Board independence in parallel.

- However, Bradlow (2009) is skeptical whether a Council—with the same composition and voting arrangement as the Board—would largely be symbolic unless accompanied by major reforms of the Fund's representation. Boorman (2008a) concedes that a reform that gives greater voice to those now under-represented in the IMF may be needed to advance the idea of a Council.

- Dervis (2009) stresses that the transformation of the IMFC into a governing Council of Ministers should take into account the role and weight the developing countries have gained in the world economy, and this weighting should be adjusted in a continuous and dynamic way to reflect new economic realities.

Role and effectiveness of the Executive Board

The debate on the Executive Board's role focuses on its mandate, appropriate size and location:

- Lombardi and Woods (2008) note that, while the Board participates in a large number of surveillance discussions, these meetings have little effect on staff appraisals and hence the Board is ineffective in strengthening the IMF's surveillance.

- Bossone (2009) argues that the Board should be independent and accountable to the Governing council, and management should be made accountable to the Board with a clear division of responsibilities between the Board and management, requiring the former to exercise full oversight over the activity of the latter.

- Eichengreen (2009) suggests that a substantial reform would be abolishing the Executive Board, with day to day decisions made by a majority vote of senior management (MD, DMDs) similar to how decisions are made at a monetary policy committee of a central bank.[3] Parallel efforts should be made to increase the

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[3] This is also supported by Soros (see Brookings 2009).

accountability of the senior management such as by greater transparency of management decisions and the criteria used to take decisions; delayed publication of minutes of their deliberations; regular press conferences held by the MD summarizing the management team's decisions; or even considering a rule that the IMF management defends its case before congressional or parliamentary committees.

- Kelkar and others (2005) suggest that the Executive Directors should be elected by their respective parliaments, and they should serve for fixed single terms only, which would enhance the independence of the Board.

Resident v. non resident Board

- Wyplosz (2009) makes the case for a strong non-resident Executive Board (see also King, 2006). He suggests that powerful Executive Directors would be high-level and influential civil servants—or even political appointees—who would travel, say, once a month to Washington to review decisions—possibly *ex post*—and set the direction of policy, leaving the MD in charge of implementing that policy. In addition to improving managerial effectiveness, this would lessen the importance attributed to voting rights.

- Bradlow (2009) also suggests that a "reformed" Board—with appropriate size and composition that addresses voice and representation—could indeed meet less frequently and its Directors need not be based in Washington. This would result in the management and staff having greater operational responsibilities, raising internal accountability issues, which could be addressed by both improving the IMF's operational policies and procedures and expanding the responsibilities of the IEO.

- Woods (2008) likewise suggests a non-resident Board of heavy weight policy makers who meet regularly to give strategic direction to the institution and ensure that more effective oversight of the management and staff. However, as it is the resident Board that effectively separates the US from the IMF, if the Board becomes a nonresident one, other key elements of governance would need to change, including considerations of moving the IMF headquarters out of Washington and relocating it to a capital that does not have the power to impose its own imprimatur on the institution.

Voice and representation

Chairs

Some authors note that a change in the composition of the Executive Board would mitigate the representation problem. Wyplosz (2009) particularly stresses that EU member countries should form a single constituency with a single seat (by collapsing the current eight seats to one), which would reduce the size of the Board resulting in increased effectiveness, and would collectively give the Europeans *de facto* veto power on issues for which they care.

Similar arguments are also made by de Larosière (2009), Bini Smaghi (2006), and Leech and Leech (2005). Pisani-Ferry and Sapir (2006) further argue that such a consolidation of the EU chairs would also free seats and votes for Asian countries.

Voting rules

There is a consensus that double majority voting could partly address the current gap in voice (c.f. Strand and Rapkin, and other references in Buira, 2005). Specifically:

- Chowla and others (2007) stress that a state-weight double majority system (as in most bicameral legislatures)—that requires a majority of states to support decisions alongside the majority of weighted votes, can be used at the IMF to effectively balance the competing interests and has several advantages: (i) enhancing the voice of developing countries; (ii) increasing the incentive for coalition building by allowing countries to band together and block decisions; and (iii) inducing members to support measures through the potential to trade votes. The authors also stress that unlike a quota reform which would essentially comprise a zero-sum game, in a double majority system, one person's gain need not be another's loss.

- Griesgraber (2008), and Woods (2008) stress that the application of double majority voting—e.g., ratification by 85 percent of voting power and 60 percent majority of members—to a broader set of decisions could compensate for voting imbalances in the IMF. They suggests that double majority voting should be applied to the selection of the MD and the chair of the IMFC.

- Woods (2008) emphasizes that a double majority rule would create an incentive for countries to act more genuinely by consensus rather than when countries wielding a majority of votes agree, and hence require board members to forge wider alliances of members (the idea is also supported by Boorman, 2008b).

Views on the benefits of a veto power in the IMF's voting arrangement are divided. While most studies agree with the Manuel report that an effective elimination of the US veto power would improve the efficiency and legitimacy in the IMF's decision making, some are more skeptical (Eichengreen, 2009). Specifically, he stresses that all important operational decisions in the IMF are made on the basis of consensus anyway, and elimination of a veto power is wasted effort in that regard. Even if the supermajority requirement were brought down from 85 percent of voting power to 80 percent, the US would easily be able to round up an additional 3-4 percent of support from its allies.

Managing Director selection procedure and role

Several studies agree that a key step to enhance the IMF's legitimacy is to move to a fair and competitive process in selecting the MD, without regard to nationality. Also, as noted by Truman (2006), the questions about the selection of MD also extend to that of the DMDs and the general national diversity of IMF Staff. Specifically:

- As noted above, several authors feel that the selection of the MD should also be subject to a second (double) majority of member countries to provide a greater sense of involvement to smaller countries (Birdsall, 2009; Boorman, 2008b, Griesgraber, 2008, Truman, 2009, and Woods, 2008)

- Kahler (2001, 2006) calls for: (i) ending the US-European convention in selecting the MD and the President in the IMF and the World Bank respectively; (ii) having a transparent selection criterion; (iii) expanding the list of candidates to consider internal candidates; (iv) placing the decision in the hands of ministers; (v) reinforcing the system with a two-term limit and a review process at the end of the first term.

- Griesgraber (2008) further suggests that the role of the MD should be split as Chief Operating Officer and Chairman of the Executive Board, which would strengthen the Board's ability to improve staff performance. This would also have the advantage of strengthening the position of the Board vis-à-vis the MD. Similarly, Woods (2008) suggests that having the Board being chaired by one of its members would strengthen buy-in.

IMF's mandate

Some studies also debate on the potential extension of the IMF's mandate over capital account issues and the issuance of a global reserve currency:

- **Capital account**. Truman (2008) stresses the need to review the Fund's role with respect to the capital accounts of its member countries. He notes a potential "overreaction" from the current global crisis in that countries could discount the benefits of financial globalization or potentially implement widespread capital controls. In this context, the IMF could play a useful role to guide its members in light of each country's economic and financial development. Boorman (2008a) also calls for renewed efforts to clarify the Fund's mandate in this area. Ocampo supports the idea of giving the Fund a mandate to oversee the capital account, as long as it was clear that each country was free to use controls, which is very important given the procyclical nature of capital flows (see Brookings, 2009).

- **Global reserve currency**. Dervis (2009) stresses the benefits of an enhanced role of SDRs in the global reserve system. Ocampo (2009) further suggests that the IMF should become more like a global central bank, in charge of macroeconomic policy coordination and issuer of a global reserve currency, which could be based on the existing SDRs. He perceives that SDRs would be used as a countercyclical tool to facilitate developing countries in the face of external trade or capital account shocks.

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