Chapter

3 Strengths and Weaknesses in IMF Governance

11. This chapter discusses the Fund's overall governance structures and practices using the framework provided by the four dimensions set out above: effectiveness, efficiency, accountability, and voice. Overall, the evaluation evidence points to effectiveness as the strongest feature of the Fund's governance. Accountability appears to be the weakest feature and voice is also weak. These weaknesses entail risks to the Fund's legitimacy, which in turn has a bearing on its effectiveness. This chapter and the following chapter (which discusses the roles and performance of individual governing bodies) examine the complementarities and trade-offs between these dimensions of governance.[10]

A. Effectiveness

12. Two important strengths in Fund governance support the institution's effectiveness. First is the compact management structure, with one Managing Director and three deputies who work closely with senior staff to steer the organization. This structure makes possible a rapid flow of information, and facilitates centralized control of the institution that permits adaptability while maintaining a significant degree of consistency.

13. Second, key characteristics of the Fund's governance allow it to respond quickly when called to act as "fire fighter" when a country faces a balance of payments or financial crisis. Management, relying on staff, has well-rehearsed modes of operation to prepare programs for member countries' use of Fund resources (UFR): it assesses problems, designs and negotiates conditionality, and coordinates financial support with other creditors. Staff reports provide background for Board review and approval of financing packages, and for securing wide support from the membership. This process is usually managed in a rapid and consistent manner, which is made possible by tight and centralized control over staff and its activities. In these respects, the IMF stands out among other international organizations.

14. The Fund's effectiveness as the "fire fighter" of the global financial system has been particularly noticeable when there is a systemic crisis. In these cases, informal governance practices emerge that allow the Fund to react with speed and flexibility, in situations where other multilateral organizations might well become paralyzed. This informal governance has functioned differently in each crisis, but certain characteristics have been present in most cases. When a crisis is detected, alternative mechanisms for strategy formulation, decision making, and implementation are superimposed over the usual mechanisms. The crisis mechanisms center on a small network of senior government officials—generally from the countries most closely involved (often the G-7 deputies). Fund management and staff work with these officials to formulate strategies and to raise financing or allocate burdens. To facilitate negotiations, discussions and decision making shift out of the Board and into a smaller group of policy makers who are not bound by voting arrangements or formal procedures; their dialogue takes place through conference calls and private meetings where official minutes are rarely kept. Once a tentative agreement is reached, Fund staff work with relevant stakeholders to design the details, and Management brings the proposed package to the Board for review and approval—a process that helps foster a degree of collective ownership over decisions. This system has allowed the IMF to design programs and mobilize large amounts of financing in a fraction of the time this would take to accomplish through formal channels.

15. This informal governance mechanism is not without a downside. Because decision making during crises takes place outside formal channels, it lacks transparency and the ability to ensure ex post accountability for decisions taken. Also, this informal decision-making process leaves much of the Fund's membership out of the picture until a program is ready for approval.

16. Two other weaknesses have been identified by the evaluation. First, ministerial involvement in

[10]Background Documents V.1, V.2, and V.3 contain matrices with detailed findings for each dimension and each governance body, and references to the corresponding source of the evidence.

the Fund's business is weak, except at times of systemic crisis or on policy issues (e.g., HIPC Initiative, on which G-7 countries have taken a particular interest). Key functions that require strong political ownership—e.g., setting the Fund's overarching goals, performing high-level oversight—receive little attention. More often, high-level political guidance has come from outside the Fund's formal governance framework, primarily from the various informal country groupings referred to as the "Gs" (G-7, G-20, G-24). Guidance from these country groupings is intermittent and ad hoc, and risks being viewed as illegitimate.

17. Second, responsibilities are not clearly divided between Management and the Board, or, in some cases, between the Board and the IMFC. Overlaps in some areas, and gaps in others, detract from effectiveness and efficiency and undermine accountability. The IMF's Articles do not clearly differentiate the responsibilities of the Board from those of Management for conducting the business of the Fund, leaving a gray area over what constitutes providing "direction and control" and what would be considered intrusive micromanagement. Also, some Board members resent the role played by the IMFC, especially at the Deputies level, in providing strategic direction.

18. Meanwhile, gaps exist in the provision of "big picture" strategic guidance with the Board being largely reactive (for example, the Board played primarily a review and approval role in the process of formulating the Fund's Medium-Term Strategy in 2006, relying on Management to lay out the design). It also plays a very minor role in setting priorities for the allocation of technical assistance resources.

B. Efficiency

19. The Fund has a relatively lean management structure. The office of the MD comprises eight senior staff, with a budget of about $7 million (about 0.7 percent of the Fund's net administrative budget). The annual meetings of Governors and the bi-annual meetings of the IMFC are coordinated with other events that have overlapping attendance and agendas—which leads to synergies and reduces costs. The Board is compact relative to those of many UN agencies and some large international organizations,[11] and over the past decade it has been able to reduce the amount of time it spends in meetings. On the other hand, the costs of running the Board are somewhat high compared with those of resident boards in other inter-governmental organizations (see para 49). Directors are supported by a staff of 240, which represents over 9 percent of total staff.

C. Accountability

20. Accountability is probably the weakest aspect of IMF governance. There are no agreed standards against which to assess the actions of the IMF and no adequate mechanisms for the organization and its governing bodies to be held accountable by the membership or by appropriate stakeholders. Accountability is a common problem among intergovernmental organizations, and is particularly crucial in regard to the Fund, whose actions can have a major impact. The One World Trust, a respected NGO, compared four aspects of accountability across 20 intergovernmental organizations. Overall, the IMF faired slightly below average, scoring relatively better on Transparency and Evaluation than on Participation, and Complaint and Response Mechanisms (One World Trust, 2006, 2007a, and 2007b).

21. As representatives of the Fund's owners, the Board of Governors has overall responsibility for the Fund's direction and performance, as well as for overseeing the Board's performance, to which it has delegated many of its powers. This delegation, however, does not release Governors from their responsibility for the stewardship of the organization. The accountability relationship of the Board to the Board of Governors is implicit in the delegation of powers specified in the Articles of Agreement and the By-Laws. However, there are no standards for what is expected from the Board and the only formal mechanism for assessing its performance is the requirement to report annually to the Board of Governors on the state of the Fund and the international financial system. It would be difficult to assess institutional performance on the basis of this report.[12] In fact, the overlap of responsibilities between the Board and Management on the one hand, and between Board members and their political principals on the other, blurs the lines of accountability and makes it difficult

[11]Intergovernmental organizations with near-universal memberships typically have executive boards of 32–36 directors, compared to the Fund's 24. See Martinez-Diaz (2008).

[12]It would be impractical for the 185-member Board of Governors to assess the performance of the Board or of Management, even if clear standards could be agreed. There is no obvious way to apply rewards or sanctions for performance. The Joint Committee on the Remuneration of Executive Directors and their Alternates, composed of three current or former Governors, recommends salary increases for Directors, based on comparator formulas but without assessing performance. The IMFC is not formally charged with oversight and, in practice, it does not perform this function. Finally, there is no institutionalized process of self-evaluation for the Board, unlike for a growing number of private, public and intergovernmental organizations. For example, the number of U.S. nonprofit organizations with boards that evaluate themselves has grown from 23 percent in 1994 to 43 percent in 2004 (BoardSource, 2004).

to identify a set of outputs and results for which the Board could be held accountable.

22. Another gap concerns the oversight of policy implementation, in spite of the Board reviewing each lending and surveillance report and conducting periodic reviews of policy implementation. For example, guidelines that call for the streamlining of conditionality and guidelines for financial-sector surveillance have yet to be implemented adequately. Also, currently there is no adequate oversight of financial management and conflict of interest issues by the Board or by any other body representative of the membership.

23. This assessment of a weak accountability framework is shared by Board members responding to IEO's survey, 55 percent of whom said that they believe that the existing mechanisms for holding the Board as a whole accountable are "inadequate or nonexistent," while another 25 percent thought that adequate mechanisms are "in place but not used sufficiently." Similar views are held by authorities and senior staff.

24. The MD is accountable to the Board for his job performance, decisions, and personal behavior. This relationship explicitly emanates from the Articles, which specify that the Board selects the MD and may terminate his appointment, as well as placing the MD "under the direction" and "general control" of the Board. While the accountability framework for the MD is better specified than that for the Board, it has been of no greater practical use, since again there are no agreed standards for what is expected from Management, no formal process for evaluating Management's performance, and no rewards or sanctions other than a decision on whether or not to reappoint the MD after five years. In fact, the Board has thus far played only a pro forma role in selecting MDs and renewing their appointments, with the actual decision being made by a subset of member countries' authorities through an opaque process. Not surprisingly, the vast majority of Board members believe the Board is insufficiently involved in holding the MD accountable.[13]

25. Stronger accountability mechanisms are needed to address serious concerns about the Fund's legitimacy. To be sure, poorly designed accountability mechanisms can reduce effectiveness if they make Board members less willing to make difficult and controversial decisions or if they make Fund officials too risk-averse or lock them into box-ticking performance exercises. But better specified responsibilities and clear performance standards and reporting mechanisms are likely to contribute to, rather than detract from, effectiveness. These issues are further explored in Chapters 4 and 5.

D. Voice

26. This evaluation examined two aspects of Fund governance related to voice: (1) the capacity of members to have their views heard and considered in the institution's decision-making process; and (2) the capacity of other stakeholders, including legislatures and civil society, to have their views heard and considered by the IMF. It found that these two aspects were weak and needed to be strengthened to enhance members' confidence in, and support for, the Fund, which will be important for sustaining the institution's effectiveness over the medium to long term.

27. On the issue of the voice of members, there are concerns about the current structure of the Board. The average size of the 16 multicountry constituencies at the Board is large compared with those in other international organizations.[14] Representing a large number of countries places heavy demands on Directors' time and resources to consult with the authorities on matters affecting them. It may reduce these Directors' ability to participate in policy and institutional discussions, and may even affect the quality of their work on country matters. A larger Board would allow for smaller constituencies and better representation, but would increase costs and could diminish effectiveness. On the other hand, there have been calls to abolish the positions of the five appointed Directors, opening the door to converting all the eight single-country constituencies to multicountry ones.[15]

28. Meanwhile, there is evidence of a "chilling effect" that deters Directors and their authorities—especially those from low-income countries—from challenging Management and staff views for fear of negative repercussions. IEO surveys show that one-third of the authorities and 36 percent of Board members believed that they can criticize staff and Management without fear of repercussions "rarely" or "only on some issues." This opinion is most pronounced among authorities and Directors from low-income countries: as many as 56 and 67 percent of them, respectively, felt they can freely criticize staff "rarely" or "only on some issues."

29. On the issue of the voice of external stakeholders, transparency is key to informed participation. Since the 1990s the Fund has made efforts to

[13]Since late 2007, a Board working group has been preparing performance standards for the MD, but none have been issued.

[14]The average multicountry constituency at the Fund (and World Bank) has 10.9 countries, but only 5.6, 7.6, and 5.3 at the World Health Organization, Global Environmental Facility, and United Nations Development Program, respectively.

[15]McCormick (2008).

become more open to views of non-governmental stakeholders and legislatures. More than half of Board members meet with members of civil society at least on an ad hoc basis, but only 18 percent do so on a regular basis. While 40 percent of Board members publish some reports on their activities, fewer than a quarter appear before their legislatures on a regular or even ad hoc basis.

30. Since 1996, the Fund has significantly liberalized its document disclosure policy, making electronically available to outsiders more information about Fund operations and Board decisions. But its disclosure policies and practices could be strengthened to match best practice among international organizations. Fund archives policy remains restrictive, with significant obstacles to accessing declassified material remotely. Embargo periods for Board minutes and other documents are excessively long (a view shared by about 40 percent of Board members and staff). There are no transparent and publicly available criteria governing the declassification of confidential and strictly confidential documents; this remains the prerogative of Management. Finally, stakeholders outside the Fund argue that their ability to influence Fund policy is diminished by the fact that policy documents are not made public prior to discussion by the Board.[16]

[16]See Annex 4: "Transparency: Disclosure and Archive Policies." According to recent studies, the IMF ranked eighth among 20 international organizations in terms of transparency. Also, see One World Trust (2006) and (2007b).