13

The Design of the IMF's Medium-Term Strategy: A Case Study on IMF Governance

BIAGIO BOSSONE

The IMF's Medium-Term Strategy (MTS), published in September 2005, provides a framework to enable the Fund to respond better to the needs of its members. This study analyzes how the governance of the IMF affected the shaping of the MTS and the acceptance of the strategy by the membership. The study covers the period between the start of the strategic reflection, in June 2004, and the implementation of the MTS, at the end of 2006. It does not evaluate the soundness or adequacy of the MTS itself. Assessing how the IMF's governing bodies (International Monetary and Financial Committee, Executive Board, and Management) interacted in the process leading to the MTS is an attempt to draw judgments on the Fund's governance structure.

The preparation of this case study benefited from very helpful advice and coordination assistance by Leonardo Martinez-Diaz. Jeffrey Scott Levine and Roxana Pedraglio provided excellent advice and research assistance. The author wishes to thank the officials who made themselves available for interview.

Purpose and Scope of the Case Study

The MTS helps the Fund to respond better to the needs of both its members and the international community at large, in light of the evolving global economy. Strategic thinking is one of the most crucial tasks for any institution, both to preserve the relevance of its mission and to match instruments with objectives in a way that allows the mission to be pursued efficiently and effectively. For any institution, the governance structure has a key role in facilitating strategic thinking. Assessing how the Fund's governing bodies have interacted in the process leading to the MTS is therefore an important exercise in an attempt to draw judgments on the governance of the Fund.[1] In this regard, discussions on the MTS offer an example of the interactions taking place among the Fund's governing bodies—the International Monetary and Financial Committee, the Executive Board, and Management[2]—and of their effects on Fund decisions. It also offers a good example of the Fund's consensus-based, decision-making process.

This study analyzes how Fund governance has supported the shaping and design of the MTS and implementation of the strategy. It evaluates the effectiveness of the Fund's governing bodies, their interrelations, lines of responsibility, and accountability, and the process of building the consensus underpinning the MTS. The study does not evaluate the soundness or the adequacy of the strategy itself. The evaluation covers the period between the strategic reflection launched by MD Rodrigo de Rato soon after his appointment in June 2004, and the early implementation of the MTS, by end-2006.

The preparation of the study benefited from interviews with key stakeholders, complemented by desk research. The stakeholders interviewed include current and past members of the Executive Board, senior Fund staff, and officials of Fund member governments. In selecting executive directors for interviews, care was taken to include both borrower and creditor members. The interviews sought the opinions of individuals who had been directly involved in discussions on, or in the actual design of, the MTS.

The study is organized as follows. The next section briefly describes the context in which ideas matured, both inside and outside the Fund, on the need to revisit the Fund's mission and to define its strategic direction. The third section reconstructs the process since June 2004 leading to the

[1]For a description of the functions and responsibilities of the Fund's governing bodies, see Mountford (Chapter 2 in this volume).

[2]"Fund Management" denotes the Managing Director, the First Deputy MD, and two deputy MDs.

MTS, focusing on how the governing bodies of the Fund interacted to shape the strategy. The fourth section evaluates the effectiveness of the Fund's governing bodies in setting up the MTS, and highlights a number of critical governance issues. The final section offers recommendations and conclusions.

Antecedents of the Medium-Term Strategy

In 1994, on the fiftieth anniversary of the Bretton Woods institutions, the leaders of the G-7 industrial countries called for a review of the international institutions to ensure that they were equipped to deal effectively with the challenges of the future, and, the following year in Halifax, they proposed concrete steps toward that goal.[3] At the 1994 Annual Meetings of the Fund and the World Bank, the Interim Committee of the Fund's Board of Governors adopted the Madrid Declaration on Cooperation to Strengthen the Global Economy, and considered several measures to reinforce the Fund's assistance to member countries.[4] On the same occasion, the G-24 ministers of finance issued recommendations to improve the functioning of the international monetary and financial system and its institutions.[5]

The debate took on renewed vigor in the late 1990s when financial crises in Asia, Russia, and Latin America provoked severe criticism of the Fund and prompted governments to put its reform at the center of the international policy agenda. In October 1998, the ministers and central bank governors of the G-7 agreed to support a broad range of reforms to improve the Fund's effectiveness, including reforms in transparency and accountability, and involving changes in lending policies and conditionality.[6] In 2000, the group produced detailed proposals for IMF reform, and

[3]See IMF (1995: 37–41); Kenen (1994); G-7 Summit Communiqué, Naples, July 8–10, 1994; and G-7 Summit Communiqué, Halifax, June 15–17, 1995. Available via the Internet: www.g7.utoronto.ca/.

[4]See Interim Committee of the Board of Governors on the International Monetary System, Communiqué (hereafter "IC Communiqué"), Madrid, October 2, 1994.

[5]See Intergovernmental Group of Twenty-Four on International Monetary Affairs, Communiqué, April 24 and October 1 issues, 1994. Available via the Internet: www.g24.org/.

[6]See "Declaration of G-7 Finance Ministers and Central Bank Governors," October 30, 1998 and "Memorandum on the Work Program on Strengthening the Architecture of the International Monetary System." Available via the Internet: www.imf.org/external/np/g7/103098ed.htm.

the IMFC devoted a long section to the issue in its fall communiqué.[7] The G-7 cooperated with other industrial countries and with a number of systemically relevant emerging-market countries to strengthen the international monetary and financial architecture. On behalf of developing member countries, the G-24 called in 1998 for a wide-ranging review of the international monetary system, and of the Fund's central role in it, by a task force representing industrial and developing countries.[8]

Contributions and proposals made by two commissions of eminent experts on Fund reform issues (one directed by Morris Goldstein and the other by Allan Meltzer[9]) received considerable attention. The sixtieth anniversary of the Bretton Woods institutions in 2004 motivated debates on the Fund's effectiveness in promoting international financial stability through its surveillance and lender-of-last resort functions, the Fund's role in assisting countries at various stages of economic development, and its capacity to reflect adequately the voices of all its members.[10]

Partly in response to calls for change, during the 1990s, the Fund reformed its operations, and contributed to the reform of the international financial system.[11] In 2000, following his appointment as MD, Horst Köhler articulated his vision for the future role of the Fund in a number of public speeches.[12] Starting in May of that year, Fund management and senior staff engaged in an internal exercise to define a strategic framework and, at the Annual Meetings in September, the MD submitted his agenda to the governors of the Fund.[13] In 2001, a Fund study called for integrating periodic strategic reviews with more output-oriented budgetary practices.[14]

---

[7]See "Statement of the G-7 Finance Ministers and Central Bank Governors," Washington, April 16, 2000; and Communiqué of the International Monetary and Financial Committee of the Board of Governors on the International Monetary System (hereafter "IMFC Communiqué"), Prague, September 24, 2000.

[8]See Intergovernmental Group of Twenty-Four on International Monetary Affairs, Communiqué, April 1998.

[9]Council on Foreign Relations, 1999; International Financial Institutions Advisory Commission, 2000

[10]Examples include *Reinventing Bretton Woods Committee: 60 Years of Bretton Woods*, in cooperation with the World Economic Forum (www.reinventingbrettonwoods.org/). See also "IMF at Sixty," *Finance & Development* 41(3), September 2004; Buira (2005); and Oesterreichische Nationalbank (2004).

[11]See "IMF Reform: Change and Continuity," IMF Issues Brief 00/02, April 12, 2000.

[12]See IMF News—Speeches. Available via the Internet: www.imf.org/external/news.

[13]See Concluding Remarks by Horst Köhler, Chairman of the Executive Board and MD of the International Monetary Fund, at the Closing Joint Session of the Board of Governors, Prague, September 27, 2000. See also IMFC Communiqué, Prague, September 24, 2000.

[14]See "Report on IMF's Internal Budgetary Practices" (EBAP/01/43, May 23, 2001).

In 2004, U.S. Treasury Secretary John Snow, as Chairman of the G-7 finance ministers, called for a strategic review of the Bretton Woods institutions to strengthen surveillance and to launch a new non-borrowing program facility.[15] Recently, the issue has become one of the main topics of debate among the G-20, who have strongly supported a comprehensive governance and strategic policy review of the Bretton Woods institutions.[16] Discussions in the Fund's Board, the IMFC, and other international forums have emphasized the need to make the Fund more relevant, effective and efficient in serving the needs of its members—as the Medium-Term Strategy was intended to do—but no grand visions have marked the landscape.

Shaping the Medium-Term Strategy

In June 2004, Fund Management launched a strategic review that two years later culminated in the MTS. This section describes in detail the process through 2006, and a brief chronology of events is presented in Table 1.

First Phase: Searching for Strategic Directions

A few days after his arrival at the Fund, Horst Köhler launched the first phase of the Fund's MTS at a lunch for executive directors, when he sought views on the issues that should be addressed as priorities in a "change agenda" for the Fund. These informal exchanges produced a wide-ranging list of ideas for future work. The MD, by his own admission, had no preconceived strategy of his own but sought to listen and reflect on inputs and suggestions from a range of sources.[17]

---

[15]See "The Bush Administration's Reform Agenda at the Bretton Woods Institutions: A Progress Report and Next Steps," John B. Taylor, Under Secretary of Treasury for International Affairs, Testimony before the Committee on Banking, Housing, and Urban Affairs, United States Senate, May 19, 2004. Available via the Internet: www.ustreas.gov/press/releases/js1662.htm. Talks within the G-7 referred also to including a "mission-accomplished" clause in the international financial institutions' statement of purpose, providing for periodic reviews to examine how the institutions fulfilled their stated purpose.

[16]See "G-20 Reform Agenda, 2005—06 issues." Available via the Internet: www.g20.org/.

[17]In concluding the first formal discussion by the Board on strategy, the MD indicated that, at the time of his appointment, there was a clear demand outside the Fund for a strategic review of the role of the Fund. He took it as one of his duties, in which to exercise his leadership, to carry out the review directed by Management and the Board. It was his view that the Fund should be the one to define the strategic review. See "The Fund's Strategic Directions—Preliminary Considerations" (Minutes of Executive Board Meeting 04/91-5, September 27, 2004).

Table 1. The MTS Timeline

	Date	Event
Phase 1	June 7, 2004	Rodrigo de Rato takes over as Managing Director (MD) of the IMF.
	June 16, 2004	MD holds first informal lunch with executive directors (EDs) on Fund's strategic priorities.
	September 16, 2004	Staff issues preliminary paper on the Fund's strategic direction.
	September 27, 2004	Executive Board (EB) discusses staff paper on Fund's strategic direction.
	September 30, 2004	MD informs the IMFC of upcoming discussions on Fund's strategic directions.
	October 2, 2004	IMFC welcomes initiative and looks forward to discussion at next (spring) meeting.
	October 2004	Management-staff retreat to discuss strategic direction.
Phase 2	December 13, 2004	MD establishes the Committee on Fund's Strategic Priorities (CFSP).
	February 11, 2005	EB retreats to discuss Fund's strategic directions .
	February 22, 2005	Staff issues briefing note for informal EB seminar on the Fund's MTS .
	February 22, 2005	EB meets in informal seminar on the Fund's MTS.
	March 4, 2005	CFSP issues paper on the Fund's MTS.
	March 28, 2005	EB discusses Committee's paper on the Fund's MTS.
	April 14, 2005	MD reports to IMFC on work progress on MTS.
	April 16, 2005	IMFC confirms EB indications and sets next (fall) meeting as deadline for final MTS.
	June 1, 2005	Shaping the MTS takes priority in EB Work Program.
	July 2005	CFSP drafts of MTS rejected.

Table 1 ***(concluded)***

	Date	Event
Phase 3	July 2005	MD takes leadership of MTS. Holds informal discussion with EDs.
	August 31, 2005	EB discusses MD's draft report on the Fund's MTS.
	September 15, 2005	MD reports to the IMFC on the Fund's MTS.
	September 24, 2005	IMFC welcomes reports and asks for specific proposals and timelines.
	October 3, 2005	MD holds informal discussion with EB on next steps. Establishes working groups.
	October 6, 2005	MD's report sent to key recipients with MD's cover letter.
	November 9, 2005	EB Work Program prioritizes operational plans for individual MTS components.
Phase 4	March 17, 2006	MD issues draft report on Implementing the Fund's MTS.
	March 20, 2006	Working groups reports are issued to EB as background papers to the MD's draft report.
	April 3, 2006	EB discusses the MD's Report on Implementing the Fund's MTS.
	April 5, 2006	MD reports to the IMFC on Implementing the Fund's MTS.
	April 6, 2006	MD's report sent to governors and alternate governors with MD's cover letter.
	April 22, 2006	IMFC endorses the MD's report and provides important guidance.
	May 4, 2006	MD's report sent to the same list of recipients of October 6, 2005.
	June 7, 2006	EB Work Program indicates priorities and sequencing in MTS implementation. MD stresses importance of international outreach.

Note: The documents cited in the table are referenced in the text below.

Based on views from executive directors, the MD instructed staff to draft a paper that would enable the Board to take a fresh look at a broad range of questions central to the Fund's future role and operations. The paper, prepared by the Policy Development and Review Department, was circulated to the Board in September 2004.[18] It raised important questions in four main areas: fostering stability and growth, helping members in difficulty, achieving a more productive engagement with low-income countries, and ensuring more effective management of the institution. It also pointed to the need to enhance the persuasiveness and evenhandedness of Fund advice, strengthen incentives for reform, achieve greater consensus on the appropriate scale of Fund lending, improve assistance to low-income countries, address the "democracy deficit" for borrowing countries, and re-think the size and composition of the Board.

The Board discussion on this paper reflected the preliminary nature of the exercise considering the nature and importance of the issue and the proximity of the IMFC meeting.[19] Executive directors expressed opinions but did not engage in conversation on the pros and cons of competing views. They did not seek to persuade others nor did they try to identify points of possible convergence as to where the Fund should move over the longer term. As a group, they did not provide guidance to management and staff as to the priorities or the strategic choices that they wanted the organization to pursue. One executive director noted the risk of being insufficiently radical in thinking how to improve things in the Fund. To him, the real question for such a strategy exercise was what the Fund would need to become over a 30- or 40-year period. In light of such a challenge, the same Director pushed for an early worldwide open debate, starting by posting the staff paper on the Fund website. Other Board members cautioned against the idea of web publication as being premature, and expressed a preference for the Board to have an opportunity to work on the strategy before opening the debate. Still others wondered whether an external panel should not assist the Fund in thinking about strategic directions.

As regards Fund governance, the paper pointed to the need to reconsider the role of the Board, including the balance of authority between individual directors and their capitals. Only few Board members reacted to this proposal. Two directors emphasized the need for greater Board independence, another saw no reason to discuss the issue. The MD closed the

[18]See "The Fund's Strategic Directions—Preliminary Considerations" (SM/04/323, September 16, 2004).

[19]"The Fund's Strategic Directions—Preliminary Considerations" (Minutes of Executive Board Meeting 04/91 5, September 27, 2004).

meeting with a general summing up that made clear that the process would incorporate views from Fund governors as well from outside the Fund but also stressed that the Fund should direct the strategic review itself.[20]

At the Annual Meetings in October 2004, the MD reported to the IMFC that the Fund would take a closer look at its strategic direction, and informed the Committee that there had already been an initial exchange of views. The Committee welcomed the preliminary considerations, and looked forward to a discussion at its next meeting.[21] But neither the Board nor the IMFC had given clear indications on how to move forward. In October, Management called a retreat with the heads of Fund departments to brainstorm on strategic ideas. Staff who were engaged in developing the new medium-term budget framework and reviewing employment compensation were asked to join in. This was perhaps the first sign of a corporate planning process that would eventually bring together the Fund's strategy-making and budgeting processes within a medium-term period.[22]

Second Phase: The MTS Takes Shape

After the October 2004 retreat, the MD established the Committee on the Fund's Strategic Priorities (CFSP), to carry forward work on the MTS. Anne Krueger, then FDMD, chaired the committee, which included the DMDs and eleven senior staff participating in a personal capacity. The Committee was asked to elaborate strategic proposals and to identify needed new activities, priorities, linkages, and potential trade-offs. Its work would be based on past guidance from the Board and the IMFC, and on further staff analysis of the Fund's primary activities as well as crosscutting topics such as financial sector work and communication strategy. The Committee would also take into account work done within the Fund on other issues such as quotas, and voice and participation. Initially, the purpose was to examine what the Fund was already doing in these areas, and to align more closely the organization's activities with its budget. Over time, however, committee members developed the common view that the

---

[20]See "The Chairman's Summing Up—The Fund's Strategic Directions—Preliminary Considerations" (BUFF/04/186, September 29, 2004).

[21]See "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda" (IMFC/DOC/10/04/8, September 30, 2004), and IMFC Communiqué, Washington, October 2, 2004.

[22]Under strong pressure from the Board, the Fund had launched a budget reform process in 2001. See "Report on the IMF's Internal Budgetary Process" (EBAP/01/43, May 23, 2001), and the "Managing Director's Statement on Budget Reforms" (EBAP/01/43, Sup.1, May 23, 2001).

group's purview and ideas ought to be more ambitious. The Committee's outputs were not to be shared with the Board at that stage but were used to help crystallize and clarify the staff's position on the issues under discussion. The Committee's chair engaged with executive directors, and people outside the Fund, for inputs.

In early 2005, the Board and Management held a retreat on Fund strategic directions. Management proposed that the Fund focus on enhancing effective government and strong institutions in member countries and proposed a reexamination of the financing of Fund activities and its governance structure. In reacting, directors felt that Management had not provided enough clarity on how the principle of promoting effective government in member countries would guide Fund activities. Concerned that the Fund had strayed into too far a field of activities, they stressed that budget considerations called for prioritization and selectivity. They agreed on the importance of surveillance, although some felt strongly that bilateral surveillance provided little value added, especially for advanced economies, while all generally concurred that the Fund had a competitive advantage in multilateral surveillance. Several Board members emphasized the role of the Fund in overseeing international capital markets as a way to improve the Fund's capacity to address crises. Some Board members urged that consideration of the Fund's financing role and governance structure not be postponed.

Following the retreat, the CFSP produced an informal note for the Board, which outlined the considerations and steps that management envisaged for conducting the medium-term strategic review.[23] This note soon evolved into a Board paper, which was discussed in March 2005.[24] The paper was intended to help the Board reach broad understandings on the MTS in the context of the ongoing budget reform. The expectation was that the MTS would emerge from a series of Board discussions and provide an important input to the medium-term budgetary framework for FY 2007–09, along with the Fund's income position and the results of the reviews of the Fund's cost structure (including employment structure, compensation, and benefits).

The proposed framework stressed the importance of the Fund's role in supporting the development of "broad" institutions, going beyond those narrowly concerned with macroeconomic management and moving into

[23]See "The Fund's Medium-Term Strategy—Briefing Note for Informal Board Seminar" (FO/DIS/05/19, February 22, 2005).

[24]See "The Fund's Medium-Term Strategy—Framework and Initial Reflections" (SM/05/78, March 4, 2005).

areas such as transparency, legal systems, and governance. For Fund operations, the framework anticipated a significant degree of continuity over the proposed three-year life of the MTS, but it also identified a number of outstanding issues whose resolution could lead to major changes in policies and operations, for example, the adaptation to emerging regional currency arrangements; its future role and size as lender of last resort; its involvement in the resolution of sovereign debt problems; its role in the liberalization of capital movements; changes in its budget financing and governance structure; and the reconsideration of its interactions with other international organizations. Except for the role of the Fund in capital account liberalization, these longer-term strategic issues did not receive extensive treatment in the framework proposed.

In preparation for the 2005 Spring Meetings, the CFSP described the state of play in order to gauge the likelihood and potential direction of movement on those issues, but it did not make specific proposals. It devoted a great deal of attention to surveillance, financial sector work, and research, while it kept practically silent on quotas, voice and participation, and the role of the Board. On capital movements, the Committee took a bold and ambitious approach and recommended that consideration be given to amending the Fund's Articles of Agreement to remove the asymmetry in treatment between current and capital account restrictions, including members' ability to safeguard the capacity to impose temporary capital account restrictions for balance of payments purposes.

Executive directors had differing views on the proposed framework.[25] Several of them considered that it should have involved a more fundamental appraisal and forward-looking perspective on the challenges facing the Fund. Some regretted that a much-needed review of long-term strategic directions had been narrowed down to a three-year strategy framework, or noted that the proposed framework did not provide a sufficient basis to address the identified long-term issues. Others worried that the strategic review could create great expectations outside the Fund that could turn into great disappointments. In interviews for this study, some executive directors remarked that, on issues such as the role of the Fund in capital account liberalization and the development of broad institutions, Management failed to prepare the ground for a meaningful Board discussion and that, as a result, the Board did not have a chance to appreciate the proposals and make progress on them.

[25]"The Fund's Medium-Term Strategy—Framework and Initial Reflections" (Executive Board Meeting 05/30, March 28, 2005), and "The Chairman's Summing Up—The Fund's Medium-Term Strategy—Framework and Initial Reflections" (BUFF/05/60, April 1, 2005).

The Board discussed how to move forward. On some issues, directors' views converged; on others, directors expressed very weak support, at best; and on still others, they were divided more or less evenly. Clear indications emerged on the following areas. First, the Fund's mission had to focus on promoting macroeconomic and financial stability. While agreeing on the importance of strong institutions for sound policies, directors almost unanimously considered that involvement in developing "broad" institutions lay outside the Fund's core expertise, and did not see a direct role for the Fund in this area. Second, most Board members did not wish to further explore the possibility of giving Fund jurisdiction over capital movements, although a number of them felt that the Fund should return to that issue in the future. Third, Board members agreed on the complementarities among bilateral, regional, and multilateral surveillance, and emphasized the core importance of multilateral surveillance. Fourth, they wanted the Fund to be more deeply involved in financial sector surveillance, and to integrate financial sector issues fully into its work. Fifth, Board members wanted the Fund to play its part in reducing world poverty and achieving the Millennium Development Goals. Sixth, they underscored the importance of making the most effective use of Fund resources, and urged management to develop a modern risk-management approach to all Fund operations. Finally, they stressed the need for all Fund members to be recognized with adequate voice and participation in the institution's decision-making process, although they did not agree on how to achieve this objective. Many suggested exploring options that would facilitate this even in the absence of a general increase in Fund quotas.

In summing up the discussion, the MD did not delve into the specifics of the framework, which he expected would be largely redrawn. However, he gave a clear indication on the need for the Fund to open a public debate on the strategy, and to bring in different opinions from outside—itself an issue that had raised controversy within the Board. The MD emphasized the value for the institution of listening to others and showing the world that the Fund was aware of the critical issues even if it did not have all the answers. Indeed, an energetic public communications campaign was used to support the MTS process.[26]

[26]Opening the debate to the outside world was a distinctive feature of de Rato's vision of the MTS process. See "Statement by Rodrigo de Rato, Managing Director of the International Monetary Fund, on the Work Program of the Executive Board—June 7, 2006" (Minutes of Executive Board Meeting 06/53-1, Final, June 7, 2006).

At the Spring Meetings of 2005, the MD reported to the IMFC on the MTS work in progress.[27] The IMFC confirmed the indications expressed by the Board.[28] The Committee expressed the expectation that the exercise would be concluded by the next IMFC meeting.

Third Phase: The Managing Director's MTS

The period after the 2005 Spring Meetings proved to be critical. Based on the Board discussion of March 2005, the CFSP produced a new version of the strategy paper by mid-year. But the new draft failed to pass staff reviews, which deemed its messages unclear and lacking a unifying theme. A second draft, too, was rejected and the MD decided to take the process into his own hands. By then, he had heard various views on strategy from several quarters, and his own views had matured; he wanted to force the institution to confront certain fundamental issues. At a lunch with executive directors in July, he informed them of the broad outlines of the MTS paper that would go to the Board by end-August. He passed his thoughts on to his advisor, who put together a new text, drawing also on previous Board discussions, inputs from external observers and country authorities, and notes from executive directors. Since some important issues were still controversial, the text was conceived in a way that would facilitate widespread acceptance. The new framework contained proposals to address pressing demands from members, but did not include deal-breaker points.

The result was "The Managing Director's Draft Report on the Fund's Medium-Term Strategy."[29] This document started by recognizing that, if the Fund was to remain in step with a rapidly changing world, it had to single out a credible organizing principle that defined the institution's mission and prioritized its activities. This principle was that the relevance of the Fund in today's world lay in its capacity to help members meet the economic challenges of globalization. In practice, this meant different things to different members. Members' differing needs provided a basis for the Fund to prioritize its outputs within its well-defined mandate in the macroeconomic area. Using this framework, the document pointed to the Fund's new tasks including strengthening surveillance, adapting Fund operations

[27]See "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda" (IMFC/Doc/11/05/5, April 14, 2005).

[28]See IMFC Communiqué, Washington DC, April 16, 2005.

[29]SM/05/332, August 23, 2005. This soon became "The Managing Director's Report on the Fund's Medium Term Strategy to the Members and Associates of the IMFC" (IMFC/Doc/12/05/2, September 15, 2005).

to new challenges and needs in member countries, helping members build institutions and capacity, addressing the issue of fair quotas and voice, and prioritizing and reorganizing Fund work within a prudent medium-term budget. Unlike the previous strategy papers, the new document was concise and carried a convincing message and clear recommendations. Its style was more appealing than that of traditional Fund documents—as recognized by external observers and the media. The proposed strategy was broad and general, and succeeded in aligning all parties' preferences as it offered something relevant for each to buy into. It put together the many elements of the Fund's work and made the case for the Fund to do more on each of them; it clarified priorities and made it easier to understand where resources would need to go. It did not entail, however, a grand reform of the Fund since it had not evolved out of a major reconsideration of the international monetary and financial system.

While the document was deliberately general to avoid polarized reactions within the Board, it did commit to some new steps. One was the idea of using the Fund as a forum for multilateral dialogue on pressing global issues, possibly leading to international cooperative solutions. Another was the intent to focus Fund surveillance more systematically on regional developments, including through increased dialogue with regional institutions. New provisions in the area of surveillance were that staff reports on systemically important countries would spell out the regional and global implications of country policies and long-term trends, and that the Fund would report on the reasons why advanced and systemic countries would not accept its policy advice.

The document also proposed to move forward on some controversial issues. It used the space created by executive directors' earlier statements, including those that, while reflecting minority positions on specific important issues, could at least be taken as reasonable claims for keeping the issues open for discussion. The document thus proposed to start a second round of debate on a new financing instrument for emerging market countries, to take more focused action on low-income countries, and to reconsider the Board's role.[30]

[30]The MD's draft report reopened the issue of the role of the Board, after this had been dropped from the previous draft of the strategy framework. This time, however, the issue was posed differently. While previously it had centered on reconsidering the size and composition of the Board, including the balance of authority between individual executive directors and capitals, it now concerned the balance between the effectiveness of the Board's oversight responsibilities and its ability to focus on broader issues.

The document also proposed that consideration be given to modifying the format of the IMFC meetings, in order to allow the IMFC to play a stronger role in formulating responses to global problems. On quotas and voice, the document stressed the importance of addressing these issues with a view to protecting the legitimacy of the Fund as a universal institution, and referred to the current allocation of IMF quotas as unsustainable and requiring urgent action. On capital account liberalization, while recognizing the divisiveness of debating the need to make this an explicit purpose of the Fund, the document insisted on the Fund being in a position to advise members on how best to manage the process and proposed to study the issue further. The document made controversial proposals for more strategic use of communications; it put forward the MD's vision of the Fund becoming an integral part of the public debate on reform in member countries, bringing to bear the power of ideas and cross-country experience through appropriate communications policies.[31]

The Board was appreciative of the MD's draft report. It accepted globalization as the unifying principle to design an operational framework for Fund activities over the medium term. On the controversial issues, executive directors reiterated the positions they had expressed earlier, but none objected to doing further work in an attempt to find grounds for consensus. The Board agreed on the need to prioritize and scale back some activities. It offered no indications on the role of the Board or the IMFC.

At the 2005 Annual Meetings, the IMFC supported the priorities set forth in the document and looked forward to specific proposals and timelines on the main tasks identified in the MTS, within the context of the Fund's medium-term budget framework and the staff compensation review. Statements by the IMFC members reinforced the points that had been raised by the executive directors.[32]

Following its endorsement by the IMFC, the MD's report was sent in early October to a long list of individuals or groups with a influence on policies: Fund governors and their alternates, select heads of state, heads of intergovernmental (including regional and sub-regional) organizations, ministerial heads of the G-24/20/11, think tanks and universities, par-

[31]The MD made this vision clear at the Board discussion of the report. See "Draft Report of the MD on the Fund's Medium-Term Strategy" (Minutes of Executive Board Meeting 05/75-2, August 31, 2005).

[32]See IMFC Communiqué, Washington, September 24, 2005; "Twelfth Meeting of the International Monetary and Financial Committee—Record of Discussion—IMF Objectives and Medium-Term Strategy, 34-48," Washington DC, September 24, 2005; and statements by IMFC members. Available via the Internet: www.imf.org/external/am/2005/imfc/index.htm.

liamentarians, heads of prominent international civil society organizations, journalists, private sector leaders, and other selected individuals. Responses were encouraging.

Fourth Phase: Implementing the MTS

The next step was to make the strategy operational. A new document was to be produced within six months, bringing open issues to closure and working out specific proposals that would fit within the institution's limited budget—which also had to cope with a sharp fall in Fund income. In October 2005, at an informal meeting, the MD discussed with the Board the next steps following the IMFC endorsement of his report. He indicated that the Fund's MTS should not be constrained by budgetary concerns, and that tradeoffs resulting from the budget limitations would be considered by management and the Board at a later stage. The MD established six working groups and tasked them with developing recommendations and operational guidance on the core strategy issues: surveillance, emerging market economies, low-income countries, Fund governance, capacity building, and organization. The Board supported the proposed next steps.

The working groups were to use the MTS report as their terms of reference to produce a set of concise papers for management and were instructed to consult with executive directors as needed. They made several presentations to management and received feedback from the MD. Their reports were submitted to the Board as background papers to the MD's report.[33]

Staff interviewed for this case study described the MD was now fully engaged in the process. From this time on, the Fund made continual efforts to engage members and the broader public in discussions of the strategy. The External Relations Department chose suitable counterparts for this purpose, including policy experts, academics, civil society, and media organizations worldwide, and the MD tried to include MTS discussions during his regular trips.[34] The reception from external audiences was positive.

The new report by the MD contained a number of ideas to make surveillance more effective; to strengthen the role of the Fund in preventing and responding to crises in emerging market countries; and to improve the Fund's support to low-income countries and assistance to reforms through

[33]See "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (SM/06/112, March 17, 2006); and "Implementing the Fund's Medium-Term Strategy—Working Group Reports" (SM/06/114, March 20, 2006).

[34]On the Fund's communication strategy for the MTS, see IMF (2006: 109–11).

capacity building.[35] Overall, the strategy purported to be budget-neutral, with proposals that would fit within a path of declining real spending. More generally, the MD's report indicated that a new business model was needed to place the Fund on a sound long-term financial footing. Since this would require a broad political consensus, the document proposed to establish an external committee, headed by an eminent personality, to make recommendations.

Most of the report's recommendations drew on the proposals of the working groups. Some were included at the MD's instigation, such as the multilateral consultation procedure, the new modalities to enhance regional surveillance, the special emphasis on integrating macroeconomic and financial market analyses, and the selection procedure for the MD. The document made a passing reference to the need for a more balanced role of the Board.

The Board discussion was constructive.[36] There was now a better grasp of the issues to be addressed in moving to implementing the MTS and executive directors offered a number of suggestions on operational modalities. They supported the idea of a new multilateral consultation and a number of them underscored that the Board and the IMFC must be part of the process—as proposed by the MD. Executive directors supported the proposal to revisit the modalities for exchange rate surveillance. They underlined the importance of effective communications to the authorities and the broader public, while stressing the need to be mindful of the Fund's role as confidential advisor to its members.

On emerging markets, Board members agreed that the strategic review provided a unique opportunity to clarify the framework for Fund financing, and they supported the proposal to advance work on a new financing instrument. The Board supported the proposals concerning low-income countries, and accepted the MD's recommendation to look into Fund governance issues. Most executive directors endorsed the proposed two-stage approach to quotas and voice as the best hope for moving forward. Further, the Board accepted the budgetary framework proposed by the MD (although some members expressed a preference for a more ambitious stance), and acknowl-

[35]Importantly, in the area of surveillance, the document launched the idea of multilateral consultations as a new supplemental procedure to promote debates on issues of systemic relevance, and proposed to review the 1977 Decision on Exchange Rate Surveillance to update Fund guidance on exchange rate regimes.

[36]See "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (Minutes of Executive Board Meeting 06/33-1, April 3, 2006), and "The Chairman's Summing Up—Implementing the Fund's Medium-Term Strategy" (BUFF/06/66, April 7, 2006).

edged the contribution that an external committee, headed by an eminent personality, could make on the new business model issue.

In early April 2006, the MD's report was sent to all Fund governors and alternates. In the cover letter, the MD explained that the purpose of the report was "to bring more precision to the ideas" set out in the MTS and to shift the focus to its implementation. The IMFC endorsed the MD's report at its Spring meeting and at the instigation of the IMFC chair, the Committee proposed a new framework for implementing surveillance under the modalities indicated in the Fund's report, and called for rapid implementation.[37]

Since the 2006 Spring Meeting, intense work has been done to implement key aspects of the MTS, especially in the areas of surveillance and quotas and voice.[38] On surveillance, the new multilateral consultation was launched, the Board reviewed the Fund's 1977 Decision on Surveillance over Exchange Rate Policies,[39] and it discussed the IMFC's proposal for setting a "remit" for surveillance based on a selected set of objectives and priorities.[40] Progress was achieved on quotas and voice, and specific proposals were included in the report and resolution from the Executive Board to the Board of Governors.[41]

Shaping the Medium-Term Strategy: How Did Governance Work?

This section assesses the role of each of the governing bodies in shaping the MTS, based on the reconstruction of the process offered above. The process took place in the context of a growing demand from Fund members for a Fund that would regain relevance by becoming more effective and efficient in serving the needs of the global economy. The process involved a strategic review consisting of the identification and elaboration of key issues, underpinned by the search for a unifying theme that would

[37]See IMFC Communiqué, Washington, April 22, 2006. For details of this IMFC proposal and the problems it raised, see Bossone (Chapter 12 in this volume).

[38]See "Report of the Managing Director to the International Monetary and Financial Committee on the IMF's Policy Agenda" (IMFC/Doc/14/06/2, September 14, 2006).

[39]See www.imf.org/external/pubs/ft/survey/so/2007/NEW0618A.htm.

[40]See Chapter 12, which discusses this proposal.

[41]See "Report of the Executive Board and Proposed Resolution on Quota and Voice Reform in the International Monetary Fund" (SM/06/293, Sup. 1, September 9, 2006).

embody the Fund's mission, and be revisited as necessary in a fast-changing global economic environment.

Overall, the Fund's governing bodies delivered a long-awaited medium-term strategy for the institution, which all the parties involved broadly supported. The resulting strategy is not a grand reform of the IMF but an extended work program, with some innovative components organized under a unifying strategic orientation. It seeks to enable the Fund to respond more effectively to the financial and policy needs of its members in the context of an increasingly interconnected world economy.

Before turning to the role of each governing body, a general governance issue emerging from the preparation of this case study should be mentioned. As documented in the above sections, the Board supported the final MTS. However, in interviews for the case study a number of executive directors revealed significant discomfort that the consensus based culture of the Fund was being eroded, citing as examples decisions on important issues under the MTS. The feeling of discomfort communicated in the interviews was much stronger than could be sensed from reading Board records. While the subjective elements behind verbal communications cannot be discounted, the revealed discomfort could in fact be an indication of a more general governance problem of the institution, whereby fundamental concerns on the Fund's decision-making process do not find their way through the Board and as a result are not addressed by it.

International Monetary and Financial Committee

The previous section illustrates the limited role that the IMFC has played in setting the Fund's strategy. Strategic initiatives typically do not originate within the IMFC, nor does the IMFC articulate these initiatives independently of advice from the Board and management, since the Committee is not organized to perform this task.

The MTS originated from several sources. It required tight management and a centralized capacity to solicit and coordinate various inputs from members and stakeholders. The IMFC advised the Fund on additional work needed and, when the work was completed, it noted the existence of consensus to endorse the initiative, which then became a new Fund mandate. It imparted discipline to the exercise, inducing the Fund to be responsive and deliver on its work program as and when expected. Finally, by asking the Fund to report on the MTS progress periodically, the IMFC exercised an important function of global accountability.

Many observers believe that, as a ministerial entity, the IMFC serves the important function of legitimizing—on behalf of Fund members—

the strategic directions that the Fund set out to pursue. In other words, the IMFC's endorsement amounts to Fund members taking ownership of these directions. In the case of the MTS, its endorsement by the IMFC was necessary to grant it full legitimacy. Yet, this role of the IMFC raises important questions of governance, in particular as regards the IMFC's relationship with the Board.

- *Accountability.* Can the IMFC be given the responsibility to hold the Board to account for its performance, given that many Fund initiatives are endorsed by the IMFC and that many directors receive instructions from Ministers in the IMFC? It would appear that currently, the Board doesn't have the independence from the IMFC that is needed for the latter to hold the former accountable. More generally, how can the IMFC take an independent stance on Fund performance, and hold the Fund to account for it, if at the same time it is integral to the Fund's decision-making process? If the IMFC were given such responsibility, its work processes would need to be separated from those of the Board.
- *Strategy setting.* If the IMFC were to play a greater role in setting strategic directions for the Fund, how should it organize its operations in order to perform such a task effectively? Currently, the IMFC Governors meet for only a few hours every six months, and therefore they can only be expected to endorse high-level strategic goals. This leaves considerable scope for the role of the Board, ranging from agreeing on a detailed strategy designed by Management, to being directly involved in its design. How would a greater role of the IMFC reflect on the role of the Board? Should not the IMFC have to rely more on the group of deputies to prepare its discussions? In such a case, how could overlap be avoided between the IMFC deputies group and the Board? If, in the end, the Board would have to do the job, what would be the real value added by the IMFC?

Executive Board

The Board contributed to the MTS framework through a number of informal and formal discussions. It did not originate initiatives of its own, and mainly reacted to Management proposals. The Board was where Fund members could think through Management proposals for new strategic directions, expressing members' preferences and contributing ideas for shaping the strategy framework. The Board provided guidance on MTS issues, especially those on which member governments held strong views. The continuous interaction of Board members with capitals and management facilitated the search for strategies that addressed the specific demands from member countries, as revealed by the resulting MTS. The Board ensured that the MTS would be integrated with the Fund's medium-term budget, so that decisions on resource allocation and strategic priorities could be taken jointly. The Board also demanded that the Fund's revenue sources be reconsidered, especially in a situation of declining income.

The MTS story shows that, while the Board cannot draw up a strategy, it reacts to ideas and proposals, and defines the contours of what is politically feasible. In so doing, it provides direction to those who draw up the strategy. However, could the Board have performed these tasks more effectively? This question can be addressed from two angles: one is the way the Board forms its deliberations; the other is the factors that affect its performance.

Board Deliberations

When reviewing the records of Board discussions on strategy issues, one notices the depth and level of detail of Board members' interventions. The Board analyzes issues and their possible implications with a significant degree of knowledge, insight, and institutional wisdom. At times, Board discussions are genuinely constructive. Important comments are contributed extemporaneously by individual members, especially those who are willing and able to speak openly and candidly. However, these interventions often fail to translate into a true dialogue. One cannot often see the dynamics of juxtaposing views, the "give and take," the disagreements, or the efforts to persuade, that are typical of a dialogue and that would be expected from a collegial body that seeks to achieve common understandings and to deliberate on a consensual basis.

The records of the Board discussion of the MTS framework show that, on a number of key issues, some Board members expressed opinions that were either contrary to the majority view or challenged the conventional wisdom. These opinions did not succeed in triggering a discussion or even in soliciting reactions from other members of the Board. For example, while most Board members practically ruled out the possibility of the Fund's involvement in supporting the development of "broad" institutions in member countries, an executive director noted that this was tantamount to ignoring the overwhelming evidence linking institutions to growth. There was no reaction from others on the Board. Another example refers to management proposal to give the Fund jurisdiction on capital account liberalization. While the proposal was rejected by most executive directors, one director noted that closing the discussion on the subject was premature, since many countries were liberalizing their capital accounts and it would be important to see if they were doing so in an orderly fashion and with proper advice from the Fund. Another director defended the proposal, arguing that it would prevent members from introducing arbitrary restrictions to capital movements that would impose unfair costs on others. While both points were quite noteworthy, nobody acknowledged them. On multilateral surveillance, an executive director envisaged a role for both the Board and the IMFC in shaping broad consensus on coordinated policy actions, and a clear commitment by members to take agreed-upon actions within a specified timeframe and under Fund monitoring. This intervention, too, received no rejoinders. In none of these cases did the Chair attempt to generate a discussion.

Because Board discussions are composed largely of bilateral communications from Board members to management rather than in multilateral exchanges, it may not be clear where the Board's consensus is on given issues and what the Board intends should be done about them. As Chair of the Board, Management then takes on a large role not only in extracting the overall sense of where the Board stands on issues, but also in shaping that overall sense. Management can deliberately live with ambiguity, because this gives it more room to maneuver to achieve its objectives—and this is where the dual role of the MD, as both chief operating officer and Chair of the Board, may embody a conflict of interest.

When Board members do not set the Board's dynamics toward consensus building, the risk emerges of arriving at decisions based on narrow majorities. As some interviewees have noted, this tends to happen in a context were the Board is polarized, e.g., between developing and developed countries.[42] This trend in decision making jeopardizes the cooperative spirit that protects minorities, and undermines the legitimacy of the institution. In interviews, some Board members signaled this as a real concern.

Several factors make dialogue difficult for the Board. Its large size is often cited: it is hard to have deep conversations with 24 people around a table. Another factor is the propensity of Board members to speak on behalf of their capitals, which may limit directors' ability to build collegial visions through dialogue with one another. In the MTS discussions, examples of this can be seen with respect to the role of the Fund on capital account liberalization, contingent financing, and the Fund's leverage over developed countries. The same tendency may also explain why some important issues were left out of the review leading up to the MTS,

[42]For an authoritative comment on the global political mood underpinning the work of the Fund, see "Interview with Jacques Polak, "If the Bretton Woods conference were to be held now, it would not succeed," *IMF Survey* 33(16), August 23, 2004.

e.g., the role of the Fund in capital account crises and their resolution, or evenhandedness in the conduct of surveillance.

Perhaps the practice of soliciting written statements from executive directors ahead of Board meetings—a practice initially intended to provoke more debate at the meetings—has turned against its original objective. Written statements (and statements read from scripts) reflect preconceived opinions. Once issued, they create rigidities from which their signatories may find it difficult to depart. The rigidity gets worse when Board members have negotiated or cleared their written statements with their capitals—a practice that limits even further their freedom in the discussion. Ultimately, the power and the very possibility of a dialogue are diminished, and so is the collegiality of the Board. This, in turn, may be another a reason why many substantive points in individual statements are not even discussed at meetings, and why unconventional or contrarian views from individual Board members often fail to evoke peer reactions even if they raise interesting issues.

Factors Affecting the Board's Performance

Some of the factors just discussed interact with another key feature of the Fund's Board: its typical reactive attitude, as opposed to the capacity to be proactive. In the development of the MTS, the Board expected management to formulate the strategic direction. Management selected the topics, proposed the guiding principles, and largely determined the priorities for discussion. Only when management came up with proposals did Board members express their views and opinions, which consisted largely of reactions to the issues elaborated by the staff.[43] This *modus operandi* deprives the Fund of a significant potential for new stimuli and ideas.

Other factors may affect the Board's ability to generate genuine dialogue. One is the professional profile and caliber of executive directors. While corporate boards nowadays place great emphasis on the selection modalities for board directors, the Fund's Articles of Agreement and By-Laws do not. Fund members are responsible for selecting executive directors, but are not bound by (nor do they necessarily have) mechanisms to ensure that individuals are systematically selected with the right mix of skills, seniority, experience, and wisdom. There is therefore no guarantee that members make all efforts to pick the best candidates.

Another factor is the rapid turnover of executive directors. This discourages the accumulation of knowledge and institutional memory, making it

[43]Only at its retreat in early 2005 did the Board entertain a discussion on strategic issues with two external eminent persons.

more difficult for the Board to exercise its functions and exert its influence. It is not by coincidence that extemporaneous, deeper, and in general more authoritative interventions in Board discussions tend to come more frequently from directors with more seniority and familiarity with Fund issues.

Finally, the independence of executive director may be weakened by incentives facing their office staff. Some of their advisors may have an interest in joining the Fund upon termination of their service with the Board. It was noted in interviews that this may motivate some advisors not to challenge staff views when advising their directors on issue positions.

Management

At the start, the MTS process had difficulty producing satisfactory results. Some of the executive directors interviewed for this study criticized the lack of a well-organized preparatory phase, which would have systematically engaged the Board in consultations before converging on a framework. Some noted that, when the Board received the first staff paper on the MTS, executive directors were not even aware that staff had been asked to produce a paper on the subject. The paper was submitted for Board discussion only a few days before the IMFC meeting and short of the Fund's minimum circulation period.

Subsequently, directions were pursued that proved to be impracticable or undesirable. At times, it was unclear even to participants where the process was heading. In interviews for this study, senior staff involved in the process referred to that initial stage as "dysfunctional" and "leading nowhere." Members of the staff and the Board noted that the MD was too distant from the process until he decided to take direct charge of it.

To be fair the process was rather new for the Fund. Speaking of the CFSP, staff interviewed noted that it was probably the first time that heads of departments engaged collectively, in a personal capacity, in candid exchanges on the Fund's strategic direction. However, internal resources could not be directed to produce a satisfactory strategy framework until the engagement of the MD. He did so under tight conditions, as the expected deadline to finalize the MTS drew closer and the preparation work until then had not progressed as desired. Insights on the management of the MTS process have implications for the Fund's governance.

An Open Process

Initially, the MTS process was too "internal" and "closed." No attempt was made to seek input from the outside world; it was very much as if only the Fund could know best how to review its own strategic direction. At the beginning, even consultations with executive directors were not structured to obtain their views and those of their capitals, and the CFSP working groups were not expected to speak to executive directors at that stage. Eventually, the chair of the CFSP appointed leaders of the working groups from among staff with no background on the themes assigned to the groups. This, however, did not prove to be good enough to bring new perspectives and some participants noted that it actually weakened the process. Given the diversity of its stakeholders, and the cooperative nature of its mission, the Fund needs to have an open dialogue with the outside world and the community of experts engaged in identifying the relevant issues and to explore them from a wider perspective. The MTS process was eventually opened up, but only after the broad parameters of the review had been set.

A Political Process

Setting the Fund's strategy is as much a political as a managerial and technical process—political in the sense that the strategy must reflect a balanced set of interests and objectives expressed by a multiplicity of diverse stakeholders, and yet must remain fully focused on the mission of the institution. The process therefore requires leadership with a capacity to balance priorities across the range of identified needs, and a sense of what is politically and practically feasible. It is appropriate that the MD exercise this leadership, but in a consensus-based institution like the Fund, executive directors must complement this role by providing guidance and feedback throughout the process.[44] Because a good strategy is one that effectively caters to the needs of the Fund's stakeholders, it is crucial to know who they are and what are their needs and interests.

General Observations

The Fund produces global public goods whose production requires close cooperation from members and their close involvement in controlling the production process. The governance system needs to hold members accountable to each other for the actions they commit to take, and for the spillovers of their actions on other members. This requires a corporate governance system that allows for frequent monitoring, feedback, and error

[44]Some of the Board members interviewed indicated that the MD had not sufficiently consulted the Board and its members; other Board members declared themselves satisfied with the consultation process.

correction. This explains why the Fund's governance system includes such key and unique elements as a resident Executive Board in continuous session, a MD with a dual capacity as chief executive officer and chair of the Board, and executive directors with dual responsibility as Fund administrators and representatives of member governments.

Such a system also has its drawbacks. It causes overlapping of roles, blurs lines of responsibility, and limits the freedom of individual organs to take decisions. One consequence of this may be the Board's tendency to micro-manage decisions, thus stepping into management's turf and diverting resources away from broader and more strategic tasks. Finally, a governance system characterized by multiple and continual interactions among its constituent bodies makes it difficult to untangle who is responsible for which decision, thereby diminishing the Fund's overall accountability and transparency.

Provisions for Reviewing the MTS?

Since reality evolves constantly, a strategy should be a living document and subject to periodic evaluation. While each component of the MTS is now subject to its own regular departmental activity cycle, management and the Board do not seem to have adopted a procedure for a regular holistic review of the MTS. Nor is there a provision for someone within the organization to act as the official "gatekeeper" of the MTS. This task would entail keeping track of internal progress and external developments of possible relevance to the strategy, for protecting the functional relationships of the MTS components (guarding against unwarranted dominance of some components over others), and monitoring their implementation. Staff members interviewed for this study assumed that either the Policy Development and Review Department or the office of the MD would hold such responsibility, but did not know whether formal responsibility had been assigned.

Conclusions and Recommendations

The development of the MTS was a complex, and internally-driven process. It was not well organized. The process began with a phase of identification of key issues involving reflections by staff and management, with feedback from the Board. Overall, the Fund's governing bodies interacted constructively and the process eventually produced a strategy document that was accepted by the membership.

This case study concludes that a better organized, more open and inclusive process, handled directly by the MD from the outset, and benefiting from a more collegial and proactive Board, might have led to a broader and deeper review of the Fund's strategic issues, thus presenting members with a wider range of options for strategic direction. With this conclusion in mind, a number of recommendations on Fund governance follow.

The Executive Board

Fund members should consider five actions:

(1) *Strengthen the independence, accountability, and knowledge base of the Board.* Greater independence of executive directors would be a prerequisite for the Board to think strategically in a more collegial way, engage in true dialogue, and take a more proactive guiding role. Granting greater independence to executive directors would not imply disconnecting them from members or making them unaccountable to them. It would mean releasing directors of the expectation of acting under members' instructions. In forming their own judgments, independent executive directors would need to consider the views of the members who appoint/elect them, as well as those of other members and stakeholders.

An independent Board would require a lower turnover of Board members. Rapid turnover affects the Board's independence by limiting its institutional memory. It also erodes the Board's store of knowledge and experience, making it more difficult to engage effectively in strategic thinking or to play a proactive role in strategy making. Currently, the five appointed executive directors, who hold collectively around 39 percent of the voting power, have no fixed term and serve at the pleasure of their government administrations. All other directors have a two-year term, after which they can be dismissed. A system in which appointed directors were appointed for a fixed term; terms were longer for all directors; re-elections and re-appointments were not allowed; and the renewal of the Board took place in a staggered fashion would strengthen the independence and knowledge base of the Board. Such changes would need to be accompanied by measures to improve its accountability (De Gregorio and others, 1999; Portugal, 2005).

Finally, the Board may want to consider revising the role and duties of the advisors to the executive directors, and extending them the "cooling off" rule to Fund employment that applies to executive directors and their alternates.

(2) *Introduce uniform and adequate criteria for selecting executive directors.* Criteria should be identified with a view to achieving a selection of candidates with high standards of skills, seniority, experience, independence and wisdom, and a strong capacity to act in the broader interest of the institu-

tion. The Board should be responsible for ensuring that members comply with established criteria. Executive directors should be accorded high status, both vis-à-vis Management and in their own countries. Finally, their responsibility as Fund administrators with primary loyalty to the Fund and its membership as a whole should be clearly spelled out, and endorsed by the governors of the Fund.

(3) *Reduce the size of the Board.* This should be considered as part of a governance reform to improve the Board's collegiality, efficiency, and effectiveness. The quality of any strategy discussions (and indeed of any discussions) would likely benefit from a smaller Board.

(4) *Strengthen the role of the Board in setting the Fund's strategy.* A good strategy can only be crafted by a few creative minds, implying that today's Board is too large to perform such a task. Nothing prevents the Board from regularly engaging in strategic discussions and trying to project its vision for the Fund over the medium and long term. This exercise should not just happen in the context of semi-academic internal seminars, but should be integral to the role of the Board. Strategic discussions should take place with the assistance and participation of staff and Management, and should involve external experts. This would help to introduce broader discussions and better position it to understand new trends in a timely fashion, and thus facilitate a more effective adaptation of the Fund's role and instruments to emerging problems.

(5) *The Board should undertake a periodic self-evaluation of its performance.* The evaluation should cover the Board's role in strategy making, and should be assisted by external experts (as proposed by the High-Level Panel on IMF Board Accountability, 2007). The practice of self-evaluation would provide Board members with an incentive to strengthen the quality of their interventions and collegial interactions.

International Monetary and Financial Committee

Two recommendations follow from the discussion of critical questions regarding the working of the IMFC. First, in the event the Board were granted greater independence, the IMFC could play a key role in holding the Board to account for its performance. This would require clarifying the corresponding mandates of the IMFC and the Board, and would involve a significant reorganization of the Committee's mode of operation. The Committee could meet more frequently to probe the Board on its work program and performance. This would make the Board more accountable. Second, with a more independent Board, the IMFC could be the place where members express their strategic considerations and preferences, and indicate the way they would like the Fund to address them.

Management

The analysis of the MTS process points to several areas where Management could take action to strengthen Fund strategy making.

(1) *Improve the selection process for the MD.*[45] As this case study suggests, the dual capacity of the MD requires not only strong managerial skills but also a considerable sense of strategy, a sharp understanding of what is politically feasible, a positive attitude toward consensus building, and solid negotiation capacity and leadership. The selection process should therefore involve clear criteria to help members identify the right candidates for the job. Adequate criteria should also be introduced for the selection of the other members of the Fund's top management team. These criteria should be specific to the responsibilities and functions that are assigned to each member of management.

(2) *Members should consider decoupling the roles of CEO and Board Chair.* The dual capacity of the MD may lie at the origin of two problems. The first is an excessive acquiescence of executive directors to the Chair of the Board. The second is a potential conflict of interest on the part of the MD who submits proposals to the Board but is not in a position to challenge these proposals as would be the case if s/he only had the responsibility of chairing the Board. In the MTS case, a Board at arms' length from management might have felt better positioned to prompt the latter to handle the strategy-making process in a more organized fashion.

Decoupling the two roles would strengthen the Board vis-à-vis the CEO, giving Board members more leeway to challenge the CEO and to hold the CEO to account for the performance of staff and Management. Decoupling would also allow for a clearer separation and attribution of responsibilities between the Board and Management, limiting the Board's micro-management, and giving it more time and latitude for strategic thinking. On the other hand, decoupling the roles of the MD might tend to raise tensions between the Board and management and make their relation more conflict-prone, thus weakening the consensus-building function that, in principle, is integral to the dual role of the MD.

[45]See Peretz (Chapter 11 in this volume) and High-Level Panel on IMF Board Accountability (2007).

References

Buira, A., ed., 2005, *The IMF and World Bank at Sixty*, Prepared for the G-24 (London; New York: Anthem Press).

Council on Foreign Relations (CFR), 1999, *Safeguarding Prosperity in a Global Financial System: The Future Financial Architecture*, Report of an Independent Task Force (Washington).

De Gregorio, J., B. Eichengreen, T. Ito, and C. Wyplosz, 1999, *An Independent and Accountable IMF*, Geneva Reports on the World Economy (London: Centre for Economic Policy Research).

Group of Seven (G-7), 2000, "Strengthening the International Financial Architecture," Report of the G-7 Finance Ministers to the Heads of State and Government, Fukuoka, Japan, July 8. Available via the Internet: www.g7.utorontp.ca.finance/fm20000708-st.html.

Gianviti, F., 1999, "Decision Making in the International Monetary Fund," in *Current Developments in Monetary and Financial Law*, Vol. 1 (Washington: International Monetary Fund).

High-Level Panel on IMF Board Accountability, 2007, *Key Finding & Recommendations*, April 10 (Arlington, Virginia: New Rules for Global Finance Coalition).

Independent Evaluation Office (IEO), 2008, *Governance of the IMF: An Evaluation* (Washington: International Monetary Fund).

International Financial Institutions Advisory Commission (IFIAC), 2000, R*eport of the International Financial Institutions Advisory Commission to the U.S. Congress*, March (Washington: Government Printing Office). Available via the Internet: house.gov/jec/imf/ifiac.htm.

International Monetary Fund (IMF), 1995, *Annual Report 1995* (Washington).

———, 1998, *Annual Report 1998* (Washington).

———, 1999, *Annual Report 1999* (Washington).

———, 2000, *Annual Report 2000* (Washington).

———, 2001, *Annual Report 2001* (Washington).

———, 2003, *Proposals for a Sovereign Debt Restructuring Mechanism (SDRM): A Fact Sheet*, January (Washington). Available via the Internet: www.imf.org/external/np/exr/facts/sdrm.htm.

———, 2006, *Annual Report* 2006 (Washington).

Kenen, P. B., ed., 1994, *Managing the World Economy: Fifty Years After Bretton Woods* (Washington: Institute for International Economics).

Oesterreichische Nationalbank, 2004, *60 Years of Bretton Woods: The Governance of the International Financial System—Looking Ahead*, Proceedings of the Oesterreichische Nationalbank Workshops, No. 3, June 20–22 (Vienna).

Portugal, M., 2005, "Improving IMF Governance and Increasing the Influence of Developing Countries," G-24 Technical Group Meeting, March 17–18, Manila. Available via the Internet: www.g24.org/Portugal.pdf.

Van Houtven, L., 2002, *Governance of the IMF: Decision Making, Institutional Oversight, Transparency, and Accountability*, IMF Pamphlet Series No. 53 (Washington: International Monetary Fund).