The Governance of the IMF:

How a dual board structure could raise the effectiveness and legitimacy of a key global institution

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Abstract

The International Monetary Fund is currently engaged in a reform process to update its activities to the challenges of economic globalisation and establish it firmly as the central institution for international monetary cooperation. Yet, the current reforms may miss this aim because they do not foresee adjusting IMF governance so as to allow the Executive Board to become a forum for true international economic dialogue. Without such a change in governance, however, such economic dialogue is likely to continue moving outside the IMF, and spread in fora such as the G7, G20 or others that do not have universal status.

This paper lays out a new proposal to adjust governance to make the IMF more effective in this area. It proposes to create a new smaller Board to deal with global economic issues of a systemic nature, and enlarge the current Board to make more room for developing countries, focusing it on country-related and technical matters, including bilateral surveillance and structural adjustment lending.

The implementation of a dual Board structure is obviously challenging from an institutional point of view, and the paper discusses these challenges in detail. Yet, it would allow the IMF to be more effective and carry greater legitimacy vis-à-vis developing economies and at the same time play a more central role in international economic consultation and cooperation that in recent years has increasingly drifted towards the G-groups such as the G7, G20, G24 and other fora.

Key words: International monetary system, International Monetary Fund, governance

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I. Introduction

The IMF is currently engaged in a reform process that some have hailed as the most profound review of the institution since its creation over 60 years ago. Most fundamentally, the reforms are aimed at securing for the IMF a central role in the international monetary system, updating its activities to the challenges of the globalised economy and rendering it the central institution for global monetary cooperation.

Yet, if the current reforms proceed unchanged, this aim is likely missed. The reason is not that the reforms lack ambition or comprehensiveness – quite the contrary: they are ambitious and far-reaching. However, in one key area, namely IMF governance, they do not foresee to adjust the Executive Board to turn it into a forum for true monetary dialogue. The main change foreseen in governance is an adjustment of quotas, which represent the financial contributions countries make to the Fund and determine both their influence in the institution and their access to financial support. This quota adjustment may improve the representation of individual countries, but it will leave the overall Board too large and too overwhelmed with an increasingly wide range of issues.

Against this background, this paper focuses on the question of IMF Board structure and functioning. It starts from the observation that the activities of the IMF have developed substantially in breadth and scope over the past – now ranging from multilateral surveillance on global economic issues, bilateral surveillance, crisis and structural adjustment lending to technical assistance – and argues that some of these activities need a different governance structure than others in order to be conducted in a legitimate and effective manner. Specifically, it proposes to create two Executive Board structures, a small board for systemic issues, such as multilateral surveillance and crisis lending, and a large board for country-related matters, such as bilateral surveillance, structural adjustment lending and technical assistance.[1]

The paper is organised as follows. The next section recalls the changing role of the IMF and the reform process that is currently underway. Section III reviews the structure and functioning of the Executive Board in the current setting; Section IV lays out the new proposal to add a second Board focused on the specific function of multilateral surveillance. Section V discusses how the dual board structure could be implemented in practical terms and also reviews in detail some of the challenges associated with it. Section VI concludes the paper.

II. The changing role of the IMF and the current reform process

The IMF is the world's principal institution for international cooperation serving economic and financial stability. It has been set up to oversee the international monetary system so as to provide for a stable system of exchange rate arrangements that facilitates a balanced expansion of international trade. In recent years, the Fund has more and more shifted into the domain of international finance, supporting countries in gradually opening up their capital account and financial systems in order to benefit from a full economic and financial integration into the global economy. The Fund has also, through analysis and policy advice, aimed at fostering global financial stability.

Many of the Fund's activities have come under scrutiny in recent years. For one thing, the difficulties experienced by members during financial crises since the late 1990s have put into question the

[1] A short version of this proposal can be found in Thimann (2007).

appropriateness of Fund advice; for another thing, the recent phase of accelerated economic and financial globalisation has put new calls onto the IMF to help members cope with the challenges of this phenomenon.

The Fund is also faced with the challenge to convince its members of necessary action conducive for a smooth international adjustment of balance of payments. The emergence of global external economic imbalances over the past years, involving several of the world's largest economies, underscores the need for a strong institution at the centre of the international monetary and financial system that facilitates collective action. In this regard, the Fund's new tool for multilateral surveillance, the so-called multilateral consultations, is a helpful device and enables the institution to play a role as broker for international policy cooperation.

Irrespective of this new instrument, and taking a broader perspective, many observers have accused the Fund, and its Executive Board, of having become a bystander in international policy discussions, which have subsequently moved to other informal fora[2], notably the G7 and G20. Such fora, however, have neither the legitimacy[3] nor the transparency that should ideally be sought in such a process. Therefore, the desire has arisen to put the Fund firmly at the centre of the international monetary system. However, to this end, a fundamental restructuring is necessary at the level of the Executive Board. Such a restructuring has usually been resisted by the forces of institutional inertia, and it has proven to be particularly challenging to implement changes because long-standing rights of some members would have to be curtailed.

The current reform process, which the IMF has embarked upon, began in September 2005 when its Managing Director presented a medium-term strategy (MTS) to set out the future direction of the Fund, and it is likely to be completed by end 2008 in line with the current deadline set on quota reform.[4] The objective is that the Fund remains the 'steward of international financial cooperation and stability' and is put firmly at the centre of the international monetary system.[5] The key questions to be addressed are therefore how to adapt the Fund's tasks, functions and internal structure in a significantly changed global environment so that this objective is met.

The reform process is also motivated by the recognition that the Fund's range of activities has overly expanded during the past decades, covering financial assistance, multilateral and bilateral surveillance, statistics, standards and codes, financial sector assessments, technical assistance, external training and structural lending to low-income countries.

The current reform plans are indeed ambitious and encompass virtually each and every of the Fund's activities, its internal structure and functioning, and the considerations for change are ample:

The surveillance process is reviewed fundamentally. Policy analysis shall put greater emphasis on international linkages and spillovers and dwell less on structural policies that are less internationally relevant and/or are covered by other institutions. Surveillance of exchange rate policies, which used to be based on a formal decision taken back in 1977, has now been cast into a new surveillance framework.

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[2] This issue is also acknowledged by the Managing Director of the IMF (see IMF (2005)).

[3] See e.g. Buchanan/Keohane (2006) for a thoughtful analysis of the concept of legitimacy.

[4] The Board of Governors' resolution of Singapore in September 2006 lays out this timeline.

[5] IMF (2006b).

Assessments of exchange rate policies are to be better backed up by quantitative analysis also for emerging market economies. Agreement was reached to introduce multilateral surveillance as a new standing tool, and a first multilateral consultation has been launched on global imbalances. The integration of financial sector surveillance into macroeconomic policy surveillance has been proposed and the two financial departments in the Fund were merged last year to improve the IMF's capacities in this field.

The process of providing financial assistance to members is under scrutiny as well. A proposal has been tabled to introduce a short-term financing instrument to assist mainly emerging economies with sound policies but market vulnerabilities in crisis conditions.[6] This would keep the Fund engaged in systemically important emerging economies and also prevent regional initiatives in replacement of the IMF, which over the long-term would not only undermine its role as a universal institution but even more importantly fragment the oversight of the international monetary system. The Fund's engagement in long-term lending in low income countries is also currently under scrutiny.[7] Also the Fund's own financial structure is being reviewed since the institution is losing operating income given that it hardly needs to lend to crisis countries.[8]

Finally, governance issues are under review, but here is a gap between considerable ambition and undersized plans for change. The ambition is substantial: the Fund has understood that key international monetary issues such as crisis resolution and global imbalances are increasingly taken up in other fora, in particular the G7 and G20, and that this undermines its legitimacy. It has also understood that the key to any change in this area is in the structure and functioning of the Executive Board, which is drowned in documentation, overwhelmed by tasks, and – at least it is often said – not sufficiently senior in representation to engage in multilateral dialogue and foster policy commitments. The changes that are underway are threefold: procedural improvements, quota reform and setting of surveillance priorities. The first stands essentially for less paperwork, the second for bringing members' quotas more in line with recent changes in the global economy. Both changes are necessary but not sufficient since they will not be the key to a governance reform that puts the IMF firmly back at the centre of the international monetary system and avoids crowding out by informal and possibly more effective fora. Even if the paperwork declines by 50% it will still be almost 50,000 pages per year, and even if, say Korea's quota will rise by 50% and would then amount to 2% rather than 1.35%, this will make very little difference to the functioning of the Board, or the Fund for that matter.

Looking forward, if all the proposals of the ongoing discussions among the Fund membership were implemented, the Fund would operate quite differently from today: surveillance would be refocused, streamlined and with clear priorities set by the Board of Governors, with more emphasis on international spillovers, exchange rate issues and financial issues. The Fund would have a new emergency facility for systemically important emerging market economies. It would have reformed its long-term lending to low income countries and quota shares would reflect more closely the perceived role of individual economies in the world economic and financial system. Indeed, even IMF management may be more accountable for

[6] The so-called Reserve Augmentation Line.

[7] The 2007 Malan report presented criticism to the IMF's role in low income countries and to a lack of coordination with the World Bank.

[8] The 2007 Crockett report outlines some options on how to put the IMF's finances on a sounder footing.

the output produced by the institution. Nonetheless, as in the past, the Executive Board will continue to be heavily involved in details and devote insufficient attention to broad oversight issues related to the functioning of the international monetary system and global adjustment. In particular, it will not constitute a forum for multilateral policy debate.

In sum, despite the breadth and depth of the possibly implemented measures, chances are that the medium-term strategy will not live up to the high expectations associated with it. The Fund may become more efficient, but it will not be more effective in providing a high-level forum for international monetary cooperation, in which domestic policy mandates can be squared with growing global economic and financial integration and growing international interdependence. As a result, the IMF may not be selected as the relevant forum for policy cooperation on important international monetary issues, but rather be bypassed, with other international fora taking the lead.

Therefore, in order to successfully address the phenomenon of "forum-shopping" and deliver on the desire to make the Fund the central institution for global monetary cooperation, it is necessary to increase its legitimacy and effectiveness by aligning the design of the Fund's governance structure, in particular the design features of its Executive Board, with the many important tasks that the Fund is expected to perform.

III. The Executive Board in the IMF governance structure

The 24-member Executive Board is the IMF's permanent decision-making organ, mandated by the Board of Governors[9] to be the main body for international cooperation and consultation and the day-to-day business of the IMF.[10] It has thus a central role in policy formulation and oversight of the international monetary system. While some responsibilities as listed in the Articles of Agreement fall under the exclusive competence of the Board of Governors, the Executive Board administers the code of conduct which members have subscribed to in the Articles of Agreement.[11]

Executive Directors and their Alternates are usually mid-level officials from a country's ministry of finance or central bank. For countries that have their own seat, Directors mainly transmit the view from the capital with which they are in permanent contact. For the chairs that represent a constituency of several countries (on average 8, maximum 24), Directors may check with some capitals on key issues but, since effective coordination is mostly not feasible, they retain a considerable degree of autonomy in developing positions they represent at the Board. Executive Directors often have long tenures. There is more rotation for those representing a single country, while for constituency chairs tenures of a decade or more are not uncommon. Over time, Directors develop considerable expertise also on the (rather complex) IMF internal issues, such as the institution's financial structure, the administration of charges and remunerations and other issues. By implication, they are at times rather remote from member countries' policy setting.

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[9] The Board of Governors, which currently comprises 185 members, who are either Ministers of Finance or Central Bank Governors, meets once a year and is the Fund's supreme organ.

[10] We take the present size of the Executive Board of 24 Executive Directors as a given.

[11] Such a wealth of power has often caused typical principal-agent conflicts of political oversight with national authorities. As a means to improve the accountability of the Executive Board, the International Monetary and Financial Committee (IMFC), building on the Interim Committee, was established in 2000.

The Executive Board is in continuous session and usually convenes three times a week to discuss documents prepared by the IMF staff on all the different facets of IMF activities. In 2005, the Board held over 250 formal meetings, received a total of over 80,000 pages of documents and produced itself over 10,000 pages. Given that the Board is in charge of country issues and membership is vast, it spends at least half of its time on country-related matters (see table 1).[12]

Table 1. Workload and scope of activities of the IMF Executive Board in 2005

Volume		*Structure (breakdown of activities in percent)*	
Pages of documents	>80,000	Country items	~50
Number of meetings	>250	Policy items	~20
		Informal meetings	~10
		Multilateral issues and regional surveillance	~5
		Other (seminars etc.)	~15

Source: IMF; authors' estimates.

The largest share of time is taken up by surveillance of individual members, either of macroeconomic policies (Article IV) or financial issues (FSAP). Also reviews of lending operations require considerable attention by the Board, especially for developing countries to many of which the Fund lends on a continuous basis. Further, Fund-supported policy programmes by member countries are usually reviewed in the Board several times per year. In addition to those matters, the Board also deals with a wide range of policy issues relating to the Fund's own tools: reviewing its instruments and modalities to provide financing, determining charges levied on borrowers and remunerations given to creditors, augmenting the statistical reporting by members, reviewing compliance of members' obligations vis-à-vis the Fund, and many other issues. In addition to all these activities, the scope has even widened further in recent years as new tasks were placed upon the Fund, such as the review of anti-money laundering initiatives and, at some point, also offshore financial centres.

Against this background, the scope for the Executive Board to do more where the Fund as a whole is supposed to do more, namely focusing on international spillovers and linkages and fostering smooth adjustment in the international monetary system, is limited. The Board has not the right setup in terms of level of representation, independence or accountability. It is neither the forum that policymakers use to ascertain whether joint actions can improve global outcomes, as is the case for the G7, nor is it a forum of high-level experts that has the clout to develop proposals to solve global economic problems. And it is overburdened with the full day-to-day running of the institution.

A further indicator that the Board has been overstretched may be the increasing recourse to external experts to solve internal problems such as the eminent persons groups on Fund finances or on Fund-

[12] These figures correspond approximately to IMF resources spent on multilateral surveillance – including research – which amount to 8.5 percent of total IMF staff man-years and 4.6 percent of Executive Board working hours [IMF (2006a)].

World Bank collaboration. While such groups may offer a fresh perspective, it leaves open the question why the Board itself is not able to develop and propose similar solutions.

How can the Executive Board be strengthened? There are quite a number of contributions in the literature with proposals on how to strengthen the Executive Board. Most of them focus on reducing the size of the Board, improving pattern of country representation, upgrading the status of members and strengthening their independence and accountability. Some remaining contributions contain proposals to boost effectiveness through greater delegation, to staff or subcommittees, and finally there are proposals to complement the Board through an agenda-setting super-committee like a council.

Contributions that focus on the size and composition of the Executive Board include Van Houtven (2002), Kahler (2006), Kenen et al. (2004) and Truman (2005) who all argue for a smaller Board to increase the effectiveness of this body. Kenen et al. (2004) and Truman (2005) suggest that this could be achieved by consolidating EU or euro area chairs. Bini Smaghi (2005) shows how much a smaller Board would facilitate coalition-building and hence effectiveness. More radically, Kenen (2006) proposes to replace the Executive Board by a Managing Board which would consist of 16 individuals representing the Fund's universal membership. Other contributors focus more on making the Board more relevant by improving representation. The main thrust is to shift seats from advanced economies to emerging and developing economies, which would improve ownership and participation in the Fund (see Buira (2003), Adams (2005) and Portugal (2005)). For some authors a greater voice of developing economies, which are deeply affected by Fund decisions, is so important that they advocate adding further representatives from Africa and accept that this measure would lead to an increase in the size of the Board (Evans and Finnemore, 2001).

There are also procedural proposals which aim to increase the efficiency of the Executive Board. Heikenstein (2005) suggests that the Board make use of committees focusing on single topics such as exchange rates, poverty or crisis resolution. King (2006a,b) does not see merit in the Board being involved in micro-management – a view that is shared by Dodge (2005, 2006) – and regular reviews of Article IV reports. While expressing some sympathy for approval by the Executive Board when it comes to large financial packages, the task of surveillance should in the view of King be performed by the Managing Director in the context of a clearly defined remit. Further, King deplores the 'unwieldiness' of the Board and argues in favour of establishing a non-resident body – as Keynes had originally proposed – which would meet a number of times per year and which would comprise senior officials from finance ministries and central banks. This latter point has also been made by others, including Kenen et al. (2004). Woods (2001), Bird (2006) and De Gregorio et al. (2000) argue that the Fund and its Board need to be strengthened by making it more independent, the latter arguing that it should then also be more accountable by giving it a clearly defined mandate.

All of these proposals rest on the assumption that a single Executive Board is sufficient to perform the great number of various tasks in an efficient and legitimate manner and that one simply has to find the right size, level of representation, and mode of operation. We doubt that this assumption is sound: as the presentation above has shown, the Board has been overwhelmed by the sheer range and number of topics it has to deal with and consequently did not play its envisaged role as a key forum for international monetary cooperation. And even after the different elements of the MTS get put into practice, the Board will continue to be confronted with a huge, if not overwhelming, workload. It is for this very reason that chances are that the MTS will fail to turn the Board into a key policy forum unless its current 'one-size-fits-all' structure, which has not proven functional, is appropriately reformed.

IV. A functional proposal: introducing a dual Board structure at the IMF

Our approach is fundamentally different from that in the literature: we start from the assumption that the highly diverse tasks of the IMF may require different governance structures to implement them effectively. We then review the different tasks and assign them to different governance structures. Of course, one could go as far as optimising the governance structure for each and every task differently, but this would obviously raise management costs within the institution and lead to an intransparent structure of many governance overlays. Hence, the number of governance structures must be highly limited. We believe that the optimal number of governing bodies for the ongoing IMF work is not one but two. In particular, we propose to split the tasks that are predominantly systemic in nature from those that are predominantly country-focused and technical, and propose to create two different Boards dealing with these issues (see figure 1).

Figure 1. A dual Board structure at the IMF

Systemic Issues Board:	Oversight of the setup and functioning of the international monetary and financial system; conduct of multilateral surveillance; assessment and policy implications of international linkages and spillovers; emergency lending; review of Fund instruments for global surveillance and emergency lending.
Country Issues Board:	Day-to-day business of the Fund; bilateral surveillance; long-term lending (structural adjustment, development financing); review of Fund policies vis-à-vis members and of members' obligations vis-à-vis the Fund; capacity building (technical assistance, training); statistical reporting, standards and codes.

Although this proposal is derived from a different angle, it is not inconsistent with many ideas present in the literature. It provides in particular for the possibility of having a board that is relatively small and deals as an effective forum for discussions and policy dialogue on systemic issues. Representatives could be higher level, this board could be non-resident and could meet less frequently. It also provides for the possibility of having one even larger board that allows developing countries that have a long-standing financing relationship with the Fund to be adequately represented.

1. The Systemic Issues Board

The Systemic Issues Board would address two main areas of criticism made vis-à-vis the Fund in recent years, namely that it is not effectively providing a central forum for global monetary cooperation and that it has paid insufficient attention to multilateral surveillance.[13] The first concern relates to the fact that policy issues pertaining to global monetary cooperation are increasingly taken up in fora outside of the IMF. The second concern points to the inadequate treatment of the multilateral dimension of surveillance, despite it being a key area given the rising economic and financial linkages between countries and the ensuing market and policy spillovers from one country to another and to the global level.

Mandate and functions of the Systemic Issues Board

[13] See IMF (1999).

The goal would be to install the Systemic Issues Board as a key forum for global monetary cooperation. It would supervise the setup and functioning of the international monetary and financial system and identify related policy implications. The conduct of multilateral surveillance would become a central element of the Systemic Issues Board's tasks. Based on various inputs provided by the Fund staff – including the World Economic Outlook, Regional Economic Outlooks, Article IV reports on systemic countries, the Global Financial Stability Report as well as the Vulnerability Exercise and the multilateral consultation process on systemic and horizontal issues –, it would assess global risks stemming from the rising integration of national economies into the global economy. These risks pertain in particular to market and policy spillovers that have a bearing on the stability of the international monetary and financial system. In this context, the Systemic Issues Board would also discuss exchange rate issues based inter alia on the multilateral analysis of equilibrium exchange rates provided by CGER[14]. Moreover, in addition to monitoring and assessing global risks, this Board would be in charge of developing a consensus on policy measures to address the challenges associated with rising global integration. The Systemic Issues Board would also decide on exceptional access to IMF resources and on how to proceed with countries who have defaulted on their sovereign debt. On many of these tasks, the Systemic Issues Board would obviously depend on input from the Country Issues Board (see table 2 for an overview and annex for a graphical exposition).

Table 2. Two Boards for the IMF: a delineation of responsibilities and tasks

	Systemic Issues Board	*Country Issues Board*
Mandate	Supervising the setup and functioning of the international monetary and financial system and identifying related policy implications.	Conducting bilateral activities with members and running the Fund's day-to-day business.
Specific tasks	Multilateral and regional surveillance. Multilateral analysis of equilibrium exchange rates and exchange rate developments. Multilateral consultations. Activation of exceptional financing and decisions on exceptional access. Adaptation of multilateral surveillance decisions and framework.	Bilateral surveillance. Financial sector surveillance. Implementation of standards and codes. Structural lending as well as lending within access limits and program reviews. Capacity building (technical assistance, training). Governance issues such as quota reviews/formula.
Products	WEO, WEMD,GFSR, CGER, MC reports, Vulnerability exercise	Article IVs, FSAPs, ROSC, SDDS, PRGF, PRSP, HIPC, DSA
Working modalities	Non-resident; meets 4 times a year	Resident; in continuous session
Chair	Elected member	Managing Director
Staffing	High-level civil servants	Mid-level civil servants
Number of members	12	28

Source: Authors' compilation.

Size of the Systemic Issues Board

[14] The CGER (Consultative Group on Exchange Rate Issues) is an IMF interdepartmental working group.

The mandate suggests a more exclusive club which balances efficiency and accountability considerations appropriately against legitimacy. Therefore, the Systemic Issues Board should be comparatively small in size, with 12 Executive Directors representing the main regions of the global economy. Importantly, and in contrast to the G7 or G20, membership of this Board would reflect the Fund's universal membership as Executive Directors would represent multiple-state constituencies. This Board would be half the size of today's Executive Board but still be about 60% larger than the G7 in terms of seats at the table. In sum, the Systemic Issues Board would be sufficiently small to make authoritative decisions and recommendations, yet representative and inclusive enough to be more legitimate and accountable than current informal structures. A possible geographical breakdown of representatives is provided in Table 3.

Table 3. Constituencies by regions in the IMF Executive Board

	Status Quo	*Systemic Issues Board*	*Country Issues Board*
Asia	5	3	6
Europe	9	3	9
Africa, sub-Saharan	2	2	4
MENA	3	1	3
Western Hemisphere	5	3	6
Number of chairs	24	12	28

Source: Authors' compilation.

Organisational features and working methods of the Systemic Issues Board

The Systemic Issues Board would be composed of senior officials from member countries, thus ensuring that it carries sufficient political clout. It would be a non-resident Board, as has been proposed by some academics and policymakers, and meet four times a year. With regard to its working methods, the Systemic Issues Board would elect a Chairman and Vice-Chairman from among its members, who would also set the agenda.[15] The Managing Director would be invited to the sessions of this Board.

While the current IMF Executive Board has thus far applied the rule of consensus decision making, a more explicit recourse to voting could be considered as it may entail gains in terms of efficiency, not least because the time required to reach agreement on the issue under discussion is reduced. Such a move could also lead to more effective decisions as they would not simply reflect the lowest common denominator.

2. The Country Issues Board

[15] Under the Fund's current rules and regulations, it is foreseen that an Executive Director only chairs Board meetings in the absence of both the Managing Director and the Deputy Managing Director (IMF (2006c)).

The Country Issues Board would be similar to the current IMF Executive Board both as regards mandate and structural features. Key differences pertain to the scope of topics that are covered by this new body as well as its size.

Mandate and functions of the Country Issues Board

The key tasks of the Country Issues Board would be to conduct the Fund's bilateral activities with its members and to run the organisation's day-to-day business. Therefore, this Board would deal with bilateral surveillance, including all Article IVs, Financial Sector Assessment Programs and Reports on the Observance of Standards and Codes. Moreover, it would focus on such issues as capacity building, i.e. technical assistance and training, structural lending through HIPC and PRGF as well as crisis lending within access limits. As far as the Fund's day-to-day business is concerned, the Country Issues Board would be responsible for all administrative matters and would decide inter alia on the Fund's medium-term budget. In sum, it would be responsible for all issues not explicitly relegated to the Board of Governors or the Systemic Issues Board.

Size of the Country Issues Board

The Country Issues Board's structure would resemble the one of the current Executive Board; however, it would be expanded by an additional 4 chairs to a total of 28 chairs. These additional chairs would be created exclusively for countries from the following regions: one for Asia and Pacific, two for Africa, and one for Latin America. As a result, the overall size of constituencies would be reduced as they would comprise 12 countries as a maximum. This increase in legitimacy would compensate possible efficiency losses due to an increase in the number of chairs.

Organisational features and working methods of the Country Issues Board

Members of the Country Issues Board would be mid-level officials. In line with current practice, this body would be a resident Board and be chaired by the Managing Director. The still considerable workload of the Country Issues Board could be alleviated by a committee substructure along functional lines such as structural lending, technical assistance or policy issues.

As regards decision-making rules, while again the consensus model has attractive features as a decision-making rule, such as the involvement of all chairs in the decision-making process, it could be considered to employ the existing voting rules more explicitly, which could increase the efficiency and legitimacy of decisions.

One could also think about the possibility to introduce voting rules in the Country Issues Board that differ from the ones applied in the Systemic Issues Board. More specifically, by introducing a system of double majority voting in the Country Issues Board, the voting power of smaller emerging market and developing countries could be increased, thus raising their say in the decision-making. The voting rules in the Systemic Issues Board would be left unchanged so as to avoid that, given the nature of the issues discussed in this board, key industrial and systemically relevant emerging market countries make use of their "exit option", as they have done in the past, and engage in forum-shopping by reverting to the G-groups and other fora.[16]

[16] We thank Robert O. Keohane for pointing this out.

V. Implementation: practical aspects and key challenges

Main change

The main change arising from the proposed dual Board structure would be that systemic issues relating to the world economy would be discussed in a smaller Board, involving representatives who are more closely linked to national policy setting. This would allow more effective discussions, including on policy reactions functions, and would facilitate the integration of those findings into national policy contexts as well as to adjust policy making so as to reduce risks for the system as a whole. Compared to the G7, an IMF Board focusing on systemic issues would benefit from more continuity, a closer link to ongoing analysis in IMF staff, more significant players around the table, and a greater degree of legitimacy, as not only large players would be involved, but also representatives from country groups that are deeply affected by global economic developments, such as Africa.

A second change would be that the larger country-issues Board would have more resources and time to devote to country matters, including the Fund's role in low income countries and its overall advice to member countries. In particular, emerging and developing economies would have more chairs at the table and thus have a greater voice in discussions on country issues, especially when it comes to the Fund's role in developing economies.

How could a dual Board structure be implemented, how would it work in practice and what are the main challenges related to it? For illustration purposes, some of these issues are addressed in the following sections.

1. Implementation

The new governance structure proposed in this paper necessitates a change in the IMF's Articles of Agreement, in particular of Article XII which governs the Fund's organization and management. The creation of an entirely new organ with possible decision-making powers, with its own working procedures as well as a substantial increase in the number of elected Executive Directors[17] and the likely change in the term of elected Executive Directors requires broad support by the IMF's members. Garnering such support increases of course the legitimacy of the proposed dual board structure since all stakeholders have the possibility to influence the broad principles governing the two new Boards.

Changing the Articles of Agreement

A number of steps need to be taken to bring about a change in the Articles of Agreement. First, an Executive Director, a Governor or the Executive Board may request a modification of the Articles, which has to be communicated to the chairman of the Board of Governors. As a second step, the chairman of the Board of Governors will bring such a proposal to the attention of the Board of Governors. Third, provided the Board of Governors approves the amendment, which can be done by written procedure or during the Annual meetings, this new Agreement will be submitted to members for acceptance and will take effect once the IMF informs members that the proposal has been accepted by three fifths of the members

[17] The Board of Governors may increase or decrease the number of elected Executive Directors by an eighty-five percent majority of the total voting power at each regular election of Executive Directors. Therefore, a simple increase or decrease in the number of Executive Directors would not require a change in the Articles.

representing four fifths of the total voting power. The amendment enters into force at the latest three months after it has been communicated by the Fund to its members.

This procedure needs to be followed when implementing the envisaged two Board structure. While the procedure itself is straightforward, the negotiation process could likely take a number of years before an amendment of the Articles becomes effective[18]. Indeed, experience shows that, apart from quota-related issues, questions pertaining to the size and composition of the Executive Board have proven to be particularly controversial, not least because of diverging views on which countries should have a seat at the table.

At the current juncture, however, the window of opportunity to agree on modifications to the Fund's governance structure and changes in the Articles of Agreement is more open than in the past. Various elements of the Fund's medium-term strategy require changes in the Articles. In particular, a possible sale of part of the Fund's gold holdings to boost income at a time when income from lending operations is low as a result of the absence of financial crises, and also the envisaged increase in the number of basic votes and a possible automatic adjustment in quotas will necessitate changing the Articles. Hence, if agreed upon soon, a change in the governance structure could become part of a larger package of reform measures.

Selection of Executive Directors

Until now, no formal requirements exist as to who shall be elected as an Executive Director, and decisions on the internal governance of a constituency are left to the respective countries forming the constituency. When it comes to deciding which Director from which country shall represent a constituency on the respective board, it could either be the country with the largest voting power or the one chosen on the basis of a rotational system as already applied today in some constituencies.[19] The five countries that currently appoint their Executive Directors are not subject to the rules governing elected Directors as specified in schedule E of the Articles of Agreement.

With regard to the level of representation, the nature and functions of the Systemic Issues Board would call for candidates that are senior government officials and thus involved in decision-making processes in their respective capitals. For the Country Issues Board, it would seem useful to specify a certain set of minimum requirements for the position of Executive Director, including experience with the topics the Country Issues Board is mandated to deal with.

2. Operation

The present working procedures of the Executive Board originate in the relevant Articles, supplemented by the By-Laws and the Rules and Regulations. Most of the working procedures take the form of soft guidelines rather than strict requirements, reflecting the need for pragmatic solutions to differing

[18] The second Amendment of the Articles which recognized the breakdown of the par value system may serve as an indication of the long-time span, which may be required. From July 1974, the Executive Board alone spent 280 hours of debate at 146 sessions on the second Amendment until it was presented to the Board of Governors which approved it on 30 April 1976. It came into force on 1 April 1978.

[19] We thank Nikolaus Wolf for drawing our attention to the potential role of a rotational system in helping garner support for the establishment of a dual board structure.

circumstances. A consolidation of the various decisions and guidelines into one single document could be advantageous so as to foster transparency of the working methods, while still leaving sufficient discretion for the working methods to adapt to changing circumstances.

Work programme and agenda

At present, the Managing Director submits a biannual work programme, which lists the priorities for work on policy and administrative items and provides a preliminary schedule of country items. This will most likely soon be supplemented by a statement on the surveillance priorities of the IMF. Such a statement would assemble, prioritize and synthesize economic and operational objectives for Fund surveillance identified during the discussions of the Tri-annual Surveillance Review, including for the WEO and the GFSR, and could be guided by the IMFC communiqué.

Agenda-setting for the Country Issues Board would continue very much unaltered. The agenda is driven by the mandate of the institution and is proposed by management. Executive Directors have the possibility to request the inclusion of additional items. Either the Managing Director or one of the Deputy Managing Directors who is responsible for a specific area chairs the meeting. For the Systemic Issues Board, the agenda would naturally follow this board's specific mandate and have recurrent items such as the WEO, GFSR or regional economic reports as well as multilateral surveillance issues.

3. Challenges in operation

The governance set-up proposed in this paper is unique since none of the existing international organisations employs a dual board structure, even though some countries operate dual-chamber systems in Parliament, which are however difficult to compare with the functioning of international organisations. As far as implementation of this proposal is concerned, a number of challenges may arise, which need to be looked at in more detail.

Achieving consistency and compatibility in policy recommendations

The main challenge will be to interlink the proceedings in the two Boards sufficiently so as to reach both multilateral and bilateral goals consistently, without leaving any gaps. Specifically, a discussion of global trade imbalances in the Systemic Issues Board needs to be fully aware of the policy constraints, say, both in the US and China with regard to monetary, fiscal and exchange rate policies, and its deliberations must be reflected appropriately in the bilateral surveillance discussions. Hence, both Boards need to be aware of the discussions going on in the other Board. For this to happen, the flow of information between the two Boards would need to be ensured in various ways. The Fund's Secretary's Department, aided by area and functional departments, would play an important role. This is of course of particular importance in cases where meetings are of an informal nature without any Board decision or Summing Up, e.g. the WEMD. Moreover, while the Managing Director who attends meetings of both Boards assumes the important function of an interface, it could be considered to invite on a case-by-case basis an Executive Director from the Country Issues Board as *rapporteur* to report to the Systemic Issues Board on specific issues. Finally, capitals will play a crucial role when it comes to briefing their respective Directors on the matters discussed in the two Boards.

Maintaining a clear delineation of responsibilities

The delineation of responsibilities can be drawn in a relatively straightforward manner at the outset, but it would need to be respected strictly in order to avoid gaps or overlaps. As a starting point, the multilateral issues brought to the Board today (WEO, GFSR, WEMD, etc.) would be brought to the Systemic Issues Board, and all country-matters (Article IV, FSAP, PRSP) as well as other matters (IMF policy tools, lending into arrears, charges and remuneration of members, etc.) would be assigned to the Country Issues Board (see Table 2 above). To ensure that this delineation of responsibilities is in line with the goal of achieving consistent and compatible policy recommendations by the two boards, the chairmen of the boards with the support of the Secretary's Department would set the meeting agendas so that e.g. in line with current practice the surveillance discussions of the largest economies are held slightly prior to the discussion of the fall edition of the WEO. Doing so would allow the summing ups of the discussions of the largest economies to feed into the discussion and summing up of the WEO.

Dealing appropriately with surveillance of the largest economies

Why would the bilateral surveillance reports of the largest economies not be discussed in the Systemic Issues Board? A distinction between larger and smaller economies discussed in different Boards would create a two-class system at the Fund and be incompatible with the principle of equal treatment. Moreover, it has to be recognised that even smaller economies can have systemic impacts at certain times (e.g. Thailand's devaluation of 2 July 1997 triggering the Asian financial crisis). Hence, the structure has to be able to deal with the fact that all bilateral reports are discussed in the Country Issues Board to whose proceedings the Systemic Issues Board has access.

Avoiding rising bureaucracy and additional demands on management and staff

A dual board structure could put additional demands on Fund management and staff, could lead to rising bureaucracy and ultimately to a weakening of accountability of management and staff as they report to "two masters". Therefore, to avoid undue additional administrative burdens, it is important that not only the Fund's departments and management but also the Executive Directors themselves and capitals bear a responsibility for the flow of information between the two boards and thus for ensuring consistency and compatibility in policy recommendations. In any case, management and staff would be accountable for their products, in whichever Board they are discussed. The personnel responsibility (e.g. nomination of the managing director, deputies and senior management) would lie with one of the Boards, presumably the country-issues board given larger representation.

Avoiding duplication of work

The current organization would require minimal adjustments to support the systemic and the Country Issues Board in their work. The Research Department would be closely linked to the Systemic Issues Board given that the WEO is its main product. The unit dealing with the GFSR in the Monetary and Capital Markets Department would primarily deliver outputs for the Systemic Issues Board. Moreover, it should be noted that area departments have increasingly set up horizontal units which focus on regional developments that are discussed in the Systemic Issues Board. In addition, the work of the area departments feeds into the WEO, providing a control mechanism to ensure consistency and compatibility of policy recommendations referred to above. For overall consistency across country and policy issues, the Policy Development and Review department would most likely play a central role. It is conceivable that the envisaged set-up allows for some streamlining and better targeting of outputs by IMF staff.

Avoiding overlaps and conflicts with discussions in intergovernmental forums or the IMFC

One of the main motivations of this proposal is that a dual board structure at the IMF could be more effective in multilateral and bilateral policy review for a number of reasons: first, as regards the Systemic Issues Board, more relevant players are involved in the discussion; second, more systematic and continuous consideration can be given to the matter due to the ongoing provision of in-depth analysis by IMF staff; and third, legitimacy and accountability may be larger when it comes to recommending policy change due to the formal status of the Fund as an international organisation and member countries' legal commitments vis-à-vis the organisation.

Yet, this does not obviate the need for intergovernmental forums, in particular the G7, the G20 and the Financial Stability Forum (FSF). The G7 would remain as a forum for the largest economies to deal *inter alia* with issues related to their floating exchange rates. As in the past, the G7 has been highly effective in triggering change in key currencies through market guidance and interventions whenever necessary. Moreover, the work by the G20 and the FSF, e.g. as regards the development and implementation of international standards and codes, complements the activities of the Fund, and its Country Issues Board, which surveys the national implementation of these standards and codes in its FSAP and ROSC exercises.

As far as the internal governance structure of the IMF is concerned, the International Monetary and Financial Committee (IMFC), irrespective whether it would be modelled on the Country Issues Board or the Systemic Issues Board, would remain an advisory body that reports to the Board of Governors and would set out the broad guidelines for the work of the IMF and its two Boards. Moreover, it could play a role in reviewing IMF policies.

VI. Conclusions

There is a clear desire to put the Fund firmly back at the centre of the international monetary system. As we set out, while implementing the various elements of the currently discussed medium-term strategy would make the Fund a more efficient institution, the afore-mentioned desire will likely not be fulfilled. This is due to the fact that a sufficient condition for making the Fund a more effective institution and thus an attractive institutional choice for international policymakers will not have been met: a reform of the IMF Executive Board.

Given the importance of this missing crucial ingredient in the ongoing debate, we argue that the highly diverse tasks of the IMF require different governance structures to implement them effectively. Hence, we show the rationale for taking a functional approach and establishing a dual Board structure. Our proposal takes up issues from the literature as well as current policy debates in combining a smaller Board for multilateral matters focusing on systemic economic issues, while keeping a large and possibly even increased Board for country-related and technical matters that would enhance the legitimacy of the Fund especially vis-à-vis low income countries. It differs from the literature, but also from ideas floated by policymakers, in putting the Fund at the centre of international monetary cooperation rather than creating a new G-group. The rationale underlying our approach are efficiency *and* legitimacy considerations, which are not paid sufficient attention by creating an additional informal G-group. Moreover, many IMF-related proposals that have been made so far do not give due regard to the implications for the functioning of the IMF. This proposal, by contrast, is the first fleshed-out one which also provides explicit recommendations with regard to implementation and operational aspects.

There is no denying that reforming the current ‘one-size-fits-all’ structure of the Executive Board and implementing a dual board structure at the Fund entails certain challenges that should not be disregarded. Indeed, given the nature of the proposed modifications, a change in the Fund’s Articles of Agreement would have to be approved by the membership. However, such a change should not be seen as posing an insurmountable obstacle on the way to a more efficient and effective IMF. As has been argued, at the current juncture, the window of opportunity is more open than it used to be on many occasions in the past to agree to modifications to the Fund’s governance structure and to the required changes to the Articles of Agreement. This is so because various other elements of the Fund’s medium-term strategy, if their implementation were to be agreed, also necessitate changes to the Articles. It would therefore appear useful to include the reform proposal made in this paper as part of a larger package of other reform measures.

In concluding, the proposed institutional change would strengthen the legitimacy and effectiveness of the Executive Board as a forum for multilateral policy debate and, as a consequence, the overall position of the IMF in the governance of the international monetary system. Such an outcome is highly advantageous as the stability of the system, which requires permanent monitoring and policy action if necessary, crucially hinges on having in place at its centre a legitimate, effective, and thus relevant IMF.

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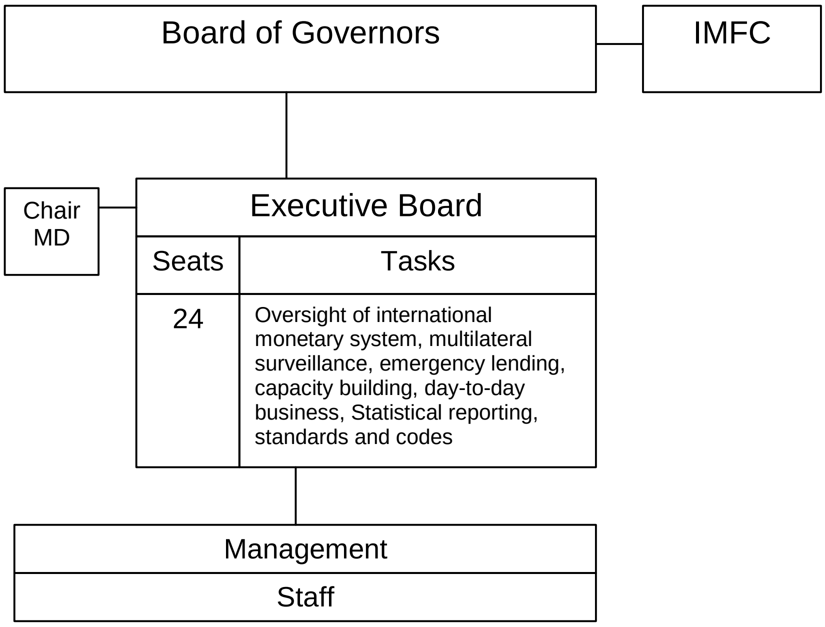
Annex 1: The dual Board in the governance structure of the IMF

Status quo



Proposal