Chapter 5

Chapter 5 Governance, organization, and finances

The Fund's Medium-Term Strategy (MTS) calls for a number of reforms in the governance and management of the IMF, including adjusting members' quotas to reflect their role in the world economy more accurately; strengthening communication and transparency; embedding MTS priorities in an output-oriented medium-term budget framework; taking other steps to make the IMF a more cost-effective and efficient institution; and adopting a new income model to place the IMF on a sound financial footing for the long term. Substantial progress was made on all of these fronts during FY2007.

Quota and Voice Reform

The funds for most of the IMF's lending come out of its quota resources—the amounts countries deposit when they join the IMF.[56] Each member's quota is based, in principle, on the relative size of its economy and determines the amount it can borrow from the IMF and its voting power. (As set out in the IMF's Articles of Agreement, each member is allotted 250 basic votes plus one vote per SDR 100,000 of its quota.) Although quotas are reviewed periodically and can be increased when deemed necessary by the Board of Governors (Box 5.1), the distribution of quotas and voting power in the IMF has not kept pace with changes in countries' relative weight in the global economy. Moreover, the share of each member's basic votes in total votes has been diluted by quota increases, from more than 10 percent until the mid-1970s to about 2 percent in recent years.

56 Not all of the paid-in capital is readily available to finance new lending because of the IMF's previous commitments and its policy of lending only in the currencies of members considered financially strong. See the box on the IMF's financing mechanism on the CD-ROM (CD-Box 5.1).

In its communiqué of April 22, 2006, the International Monetary and Financial Committee (IMFC) recognized the need for fundamental reform of quotas and voice in the Fund. It called upon the Managing Director to work with the IMFC and the Executive Board to develop concrete proposals by the time of the IMF–World Bank Annual Meetings in September 2006 for improving the distribution of quotas and voting power to reflect changes in the weight and role of countries in the world economy and to ensure that low-income countries have a voice in the IMF's decision-making process.

An intensive work program followed, involving IMF management and staff, consultations with a broad spectrum of the membership, and discussions in the Executive Board. On August 31, 2006, the Executive Board reached agreement on a comprehensive program of quota and voice reforms and recommended that the Board of Governors adopt a Resolution providing for a two-year plan to implement these reforms. This proposal was transmitted to the Governors by the Managing Director on September 14, 2006, and the Board of Governors adopted the Resolution on September 18, 2006.[57]

In its report to the Board of Governors, the Executive Board emphasized the two main goals of quota and voice reforms: (1) to make significant progress in realigning quota shares with economic weight in the global economy and make quota and voting shares in the Fund more responsive to changes in global economic realities in the future; and (2) to enhance the participation and voice of low-income countries whose weight in the global economy may be small but for which the IMF plays an important advisory and financing role.

The Resolution provided for an initial round of ad hoc quota increases for four countries—China, Korea, Mexico, and Turkey—that were clearly underrepresented, and a set of more fundamental reforms to be delivered by the 2007 Annual Meetings, if possible, or by the 2008 Annual Meetings, at the latest. The reforms are to include (1) agreement on a simple and transparent new quota formula; (2) a second round of ad hoc quota increases based on the new formula; (3) a commitment to ensuring that quota shares continue to evolve in line with countries' changing positions in the world economy; (4) an increase in basic votes of at least 100 percent to protect the voting share of low-income countries as a group, together with adoption of a means to keep the proportion of basic votes in total voting power constant in the future; and (5) measures to increase the administrative resources of the chairs with the largest constituencies.[58]

Box 5.1 Initiation of the Thirteenth General Review of Quotas

The IMF normally conducts general reviews of members' quotas every five years to assess the adequacy of its resource base and to adjust the quotas of individual members to reflect changes in their relative positions in the world economy. The Executive Board completed the Twelfth General Review of Quotas on January 28, 2003, without proposing an increase or any adjustments. The Thirteenth General Review of Quotas was initiated in January 2007 and will need to be completed by January 28, 2008. The IMF's total quotas now stand at SDR 217.3 billion.

In its September 17, 2006, communiqué, the IMFC urged the Executive Board to work constructively and expeditiously on all elements of the reform so as to garner the broadest possible support, underlined the importance of timely implementation, and called on the Managing Director to provide a status report at its next meeting.

Following the 2006 Annual Meetings, the Executive Board began to work on the second stage of reform. In January 2007, it had a preliminary discussion on a proposed amendment to the Articles of Agreement regarding basic votes. Directors found the proposed amendment to be responsive to the Board of Governors' request and generally endorsed the framework proposed by IMF staff. They noted that the number by which basic votes will be increased will need to be discussed and agreed at a later stage, when work on the new quota formula is more advanced. A comprehensive work program involving consultations with the membership and two informal discussions by the Executive Board before the 2007 Spring Meetings of the IMFC was initiated on a new quota formula that would guide the second round of quota increases.

In its communiqué of April 14, 2007, the IMFC welcomed the broad consensus reached in the Executive Board on the legal framework for an amendment of the Articles of Agreement

57 *The Resolution can be found on the CD-ROM, as can Press Releases 06/189, "IMF Executive Board Recommends Quota and Related Governance Reforms," and 06/205, "IMF Board of Governors Approves Quota and Related Governance Reforms." Press releases 06/189 and 06/205 can also be found at* www.imf.org/external/np/sec/pr/2006/pr06189.htm *and* www.imf.org/external/np/sec/pr/2006/pr06205.htm, *respectively.*

58 *On May 9, 2007, shortly after the end of the financial year, the Executive Board agreed to increase by one Advisor the staffing for the Executive Directors representing 20 or more countries (the two sub-Saharan African constituencies). A few Directors underscored that further steps were needed to strengthen the capacity of the Executive Directors' Offices representing the largest constituencies.*

regarding basic votes and the initial work on a new quota formula. It stressed the importance of agreeing on a new formula that is simple and transparent and that captures members' relative positions in the world economy while enhancing the voice and participation of low-income countries. The IMFC also called on the Executive Board to continue its work on the reform package as a matter of priority.

Communication and Transparency

Through its communication strategy and transparency policy, the IMF seeks to increase its accountability to stakeholders and build understanding of sound economic policies. With the guidance and support of the Executive Board, which regularly reviews the IMF's communication strategy and transparency policy, the IMF's efforts in these areas have increased significantly since the mid-1990s.

Communication

While acknowledging that the IMF has made great strides in increasing transparency and communication, the MTS calls for an increase in outreach, emphasizing that bringing about policy change requires active engagement not only with country officials but also with the broader public. During FY2007, IMF staff intensified their efforts in this area and presented a new draft communication strategy for formal Board discussion in early FY2008.

Outreach. The IMF continues to strengthen its outreach to its official stakeholders, while also broadening outreach to other groups, including civil society, legislators, and the private sector. Outreach to these groups has been useful not only in terms of explaining the IMF's positions but also in receiving feedback that can lead to improvements in operations, as has already happened in several areas—for example, the streamlining of conditionality, and the IMF's early support for the Multilateral Debt Relief Initiative and participation in the Extractive Industries Transparency Initiative.

As part of its outreach efforts with civil society and legislators, in recent years the IMF launched a newsletter on its Web site for civil society, and in FY2007 it launched a Web page for legislators that invites the latter to send in their comments and questions.[59] In December 2006, IMF and World Bank officials had a two-day meeting with 55 labor union leaders from around the world on managing globalization and enhancing job opportunities. Outreach events for parliamentarians included a macroeconomic policy seminar for parliamentarians in the Kyrgyz Republic in May 2006, and participation in two conferences in March 2007—a two-day conference in Washington, D.C., for Caribbean parliamentarians and officials of the Inter-American Development Bank (IDB) and the IMF; and the Annual Conference of the Parliamentary Network on the World Bank, which was held in Cape Town, South Africa.[60]

Continuing efforts were made in FY2007 to reach out to the private sector. In February 2007, the Managing Director delivered a speech at the Latin American Business Association Conference, held at Columbia University in New York, and participated in a high-level conference on investment in Central America attended by senior policymakers, major international investors, and business association leaders from Central America and the Dominican Republic.[61] The IMF and the World Bank helped organize the conference, which was held in Costa Rica.

The IMF has been making greater use of seminars and conferences to bring officials and other stakeholders from countries in the same region together to discuss key regional economic policy issues. For example, in December 2006 the IMF and the Arab Monetary Fund jointly sponsored a high-level seminar in Abu Dhabi, United Arab Emirates, on institutions and economic growth in the Arab countries. The IMF also participated in the Fifth Annual Regional Conference on Central America, Panama, and the Dominican Republic, which was hosted by the Central Bank of the Dominican Republic in Punta Cana, in June 2006.[62] The IMF and the Monetary Authority of Singapore co-hosted their second seminar on regional financial integration, in May 2006 (the first seminar took place in September 2005), and the IMF and the government of Singapore jointly organized a high-level seminar for policymakers and economists around the world on crisis prevention in emerging market countries in July 2006 as a run-up to the 2006 Annual Meetings.[63] The Japan Bank for International Cooperation and the IMF cosponsored a conference

59 *The civil society newsletter is posted at* www.imf.org/external/np/exr/cs/eng/index.asp, *and the legislators Web page is at* www.imf.org/external/np/legislators/index.htm.

60 *For more information on these events, see Press Release 06/108, "IMF Macroeconomic Policy Seminar for Parliamentarians from the Kyrgyz Republic," at* www.imf.org/external/np/sec/pr/2006/pr06108.htm; *a speech delivered at the Cape Town conference by the Director of the IMF's African Department, Abdoulaye Bio-Tchané, at* www.imf.org/external/np/speeches/2007/031707.htm; *and Press Release 07/44, "Caribbean Parliamentarians Meet with the IDB, IMF, and World Bank for the first time in Washington, D.C." at* www.imf.org/external/np/sec/pr/2007/pr0744.htm.

61 *The communiqué of the conference is available at* www.imf.org/external/np/cm/2007/020207.htm.

62 *For more information on the seminars on institutions and growth in Arab countries, and the fifth annual conference on Central America, Panama, and the Dominican Republic, see* www.imf.org/external/np/seminars/eng/2006/arabco/index.htm *and* www.imf.org/external/np/seminars/eng/2006/centram/index.htm, *respectively.*

63 *See* www.imf.org/external/np/seminars/eng/2006/cpem/index.htm.

Rodrigo de Rato, IMF Managing Director, speaking to the media at the 2006 Annual Meetings, Singapore

in Tokyo in April 2007 on policy options and challenges for developing Asia; speakers and participants included government officials and academics from low-income countries in Asia. And the IMF and Bruegel, a Brussels-based think tank, organized a joint two-day conference, "Putting Europe's Money to Work: Financial Integration, Financial Development, and Growth in the European Union," in March 2007 for researchers, policymakers, and practitioners from Europe and around the world.

Other examples of outreach activities can be found in Chapters 2 and 4.

Languages other than English. Building on the Report of a Task Force on Publication of Fund Documents and Information in Languages Other than English, which recommended translation of documents for which demand is high into languages heavily used in the IMF's work, a working group of IMF staff was set up to further consider this issue and make concrete proposals. The findings of the Working Group on Publication of Fund Materials in Languages Other than English were presented to the Executive Board in an informal briefing in April 2007, and the IMF has begun translating selected documents—including press releases and WEO summaries—more systematically into relevant languages and posting them on its Web site. The Executive Board also approved the translation of the *2007 Annual Report* into a greater number of languages than in the past, using savings on production costs to achieve this goal.

Publications and the IMF's Web site. An interdepartmental working group reviewed the effectiveness of the IMF's publications program during FY2007.[64] While the review found that the fundamental goals of the program remain valid—sharing IMF research and knowledge in a cost-effective manner—it also found scope for improvement, notably by proposing a more strategic approach to selecting what to publish and how best to deliver it (in print or online or both); increasing marketing efforts (including by entering into partnerships with commercial publishers when appropriate); enhancing the online visibility of the Fund's research publications; establishing an e-commerce site; making greater use of technologies such as print-on-demand; and introducing a differential pricing policy for publications, which will give readers in developing countries greater access to Fund publications.

64 See CD-Box 5.2, "Disseminating information: The IMF's publishing operations and Web site," on the CD-ROM.

Box 5.2 Liaison with intergovernmental, international, and regional organizations

The IMF has a long history of collaboration with numerous international and regional organizations. The IMF's collaboration with the World Bank is especially close. Areas in which the IMF and the World Bank collaborate include the Financial Sector Assessment Program, development of standards and codes, the Poverty Reduction Strategy Paper process, the HIPC and Multilateral Debt Relief Initiatives, and debt sustainability analysis. In March 2006, the IMF's Managing Director and the World Bank's President created the External Review Committee on Bank-Fund Collaboration. The Committee solicited views from member countries on the nature and practice of Bank-Fund collaboration, which has been guided since 1989 by a formal Concordat. The Committee released its report in February 2007.[1]

The IMF also collaborates with the regional multilateral banks—the African Development Bank, the Asian Development Bank, the Inter-American Development Bank, and the European Bank for Reconstruction and Development—including in-country mission work and the provision of technical assistance, and attends meetings of the heads of the regional multilateral banks. The Inter-American Development Bank and the African Development Fund participate in the Multilateral Debt Relief Initiative.

The IMF is a member of the Financial Stability Forum, which brings together government officials responsible for financial stability in the major international financial centers, international regulatory and supervisory bodies, and committees of central bank experts. It also works with standard-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors. In 2000, Horst Köhler, then IMF Managing Director, established the Capital Markets Consultative Group to provide a forum for informal dialogue between participants in international capital markets and the IMF; the Group is chaired by the IMF's Managing Director.

The IMF, through its Special Representative to the United Nations, communicates and cooperates with the United Nations and a number of UN agencies. Over the past year, particular emphasis has been placed on supporting the work of the United Nations' new Peacebuilding Commission while the IMF continues to be engaged in the Financing for Development process and to participate in the activities of the UN Economic and Social Council (ECOSOC). Collaboration between the IMF and the WTO takes place formally as well as informally, as outlined in their Cooperation Agreement of 1996. The IMF has observer status at WTO meetings, and IMF staff contribute to the WTO Working Group on Trade, Debt, and Finance, and the Committee on Balance of Payments Restrictions. IMF staff participate in the Integrated Framework for Trade-Related Technical Assistance and the Aid for Trade Task Force (see Box 3.3).

IMF staff also liaise with the Organization for Economic Cooperation and Development (OECD), the Bank for International Settlements (BIS), the European Commission, the Asia-Pacific Economic Cooperation (APEC), and several regional groups in Asia, including the Association of Southeast Asian Nations (ASEAN). The ASEAN Secretariat, the IMF, and the Royal Government of Cambodia co-hosted a high-level seminar in June 2006 on how regional integration could accelerate the development of Cambodia, the Lao People's Democratic Republic, and Vietnam.[2]

The IMF is an active participant in the meetings and activities of the major intergovernmental groups, including the Group of Seven (G-7), Group of Eight (G-8), Group of Ten (G-10), Group of Twenty (G-20), and Group of Twenty-Four (G-24). The G-10 countries participate in the IMF's General Arrangements to Borrow, an arrangement established in 1962 that can be invoked if the IMF's resources are estimated to be insufficient to meet members' needs.

1 *See Press Release 07/32, "IMF Managing Director and World Bank President Paul Wolfowitz Welcome Report on Enhancing IMF–World Bank Cooperation," and the Report itself. Both are on the CD-ROM and also on the IMF's Web site, at* www.imf.org/external/np/sec/pr/2007/pr0732.htm.

2 *See Press Release 06/145, at* www.imf.org/external/np/sec/pr/2006/pr06145.htm.

Box 5.3 Activities of the IEO in FY2007

The Independent Evaluation Office (IEO) was established in 2001 to conduct independent and objective evaluations of IMF policies and activities with a view to increasing the IMF's transparency and accountability and strengthening its learning culture. Under its Terms of Reference, the IEO is fully independent of IMF management and operates at arm's length from the IMF's Executive Board, to which it reports its findings. In January 2007, the Board agreed on a more systematic approach to, and stronger monitoring of, the implementation of Board-endorsed IEO recommendations.

During FY2007, the IEO focused its efforts on the completion of two evaluations: "The IMF and Aid to Sub-Saharan Africa," and "The IMF's Advice on Exchange Rate Policy." The Executive Board discussed the former in March 2007 (see Chapter 3). Following the Board discussion, the IEO presented the report's findings at several international outreach events, starting with a seminar at the African Development Bank in late March. The report has been translated into French and Portuguese. The evaluation of the IMF's advice on exchange rate policy was sent to the Executive Board in March 2007 and was scheduled for discussion in early FY2008. The evaluation explores whether the role of the IMF in exchange rate policy advice is clearly defined and understood, assesses the quality of that advice, and examines the quality of the dialogue with country authorities. While acknowledging that the quality of the IMF's advice to its member countries has improved, the IEO identifies a need to revalidate the fundamental purpose of IMF exchange rate surveillance, thereby clarifying the expected roles of the IMF and member countries, and offers detailed recommendations for improving the management and conduct of the IMF's exchange rate policy advice and interactions with member countries (see Chapter 2).

Work on a third evaluation, "Structural Conditionality in IMF-Supported Programs," continued during FY2007. The report is expected to be finalized and sent to the Executive Board before the Annual Meetings in October 2007.

Four topics were added to the IEO's work program for evaluation over the next two years: (1) aspects of IMF corporate governance—including the role of the Board; (2) the IMF's interactions with its member countries; (3) the IMF's research agenda; and (4) the IMF's approach to international trade issues.

The IMF's Web site is the public's primary source of information about the IMF. During FY2007, the site was redesigned to make it a more effective communication tool, the *IMF Survey* increasingly became a Web-based product, and there was a shift to greater reliance on the Web for dissemination of information and messages to enable faster, more frequent, and more flexible communication between the IMF and its stakeholders.

Engagement with media. A biweekly media briefing by the External Relations Department, instituted in late 1999 and initially intended for media based in Washington, D.C., has since developed into a webcast for journalists around the world. The Online Media Briefing Center, a password-protected multimedia site set up in FY2004, allows journalists to access documents under embargo, participate in press briefings, and receive information and data tailored to their needs. The IMF's operational staff have also increased their contacts with the media.

Transparency policy

The IMF's transparency policy stems from an Executive Board decision in January 2001 establishing the presumption that country documents and policy papers and associated Public Information Notices (PINs) would systematically be published, although publication remains voluntary. The decision followed steps that had been taken since 1994 to enhance the transparency of the IMF and to increase the availability of information about its members' policies, while including safeguards to maintain the frankness of the IMF's policy discussions with members by

Meeting of the IMFC at the 2006 Annual Meetings, Singapore

striking the right balance between transparency and confidentiality. Members may request deletion of information not yet in the public domain that constitutes either highly market-sensitive material or premature disclosure of policy intentions.

Following their discussion in FY2006 of an IMF staff review of the transparency policy, Executive Directors called on the staff to produce annual updates on the policy's implementation for posting on the IMF's Web site. The second annual report on the implementation of the transparency policy, published in February 2007, presents information on documents considered by the Board between November 1, 2005, and October 31, 2006, and published by December 31, 2006, including publication rates for each type of document, lags between Executive Board discussions of documents and publication, deletion of material from documents, and the publication behavior of member countries.[65]

In FY2007, publication of reports on Article IV consultations and use of Fund resources rose for the third year in a row, increasing from 82 percent of total reports in 2005 to 85 percent in 2006. The number of member countries that published all reports on their Article IV consultations and use of IMF resources increased from 136 in 2005 to 142 in 2006. The share of Financial System Stability Assessments (reports produced under the Financial Sector Assessment Program) released climbed to 82 percent, and the publication rates both of documents announcing the policy intentions of countries entering into arrangements with the IMF and of PINs increased to 94 percent.[66]

Management and Organization

During FY2007, the IMF reassessed its risk-management framework, curbed its administrative expenditures, and streamlined its procedures by consolidating or shortening reports, modifying misreporting procedures, and lengthening the intervals between policy reviews. It also sought to enhance its effectiveness through improved collaboration in a range of areas with other international and regional bodies (Box 5.2) and by taking account of the recommendations made by the Independent Evaluation Office (IEO) on Fund policies (Box 5.3).

How the IMF is run

The highest decision-making body of the IMF is the Board of Governors, which is appointed by the IMF's member countries. As set out in the Fund's Articles of Agreement, the Executive Board is responsible for conducting the business of the Fund, and for this purpose exercises all the powers delegated to it by the Board of Governors. The Executive Board is composed of 24 Executive Directors and their Alternates appointed or elected by member countries and has responsibility for the day-to-day oversight of the IMF's work at Fund headquarters, located in Washington, D.C.[67] The Managing Director of the IMF serves as the Chair of the Executive Board.

The Board of Governors consists of one Governor and one Alternate Governor from each of the IMF's 185 member countries. The governor is usually the member country's minister

65 *The report, "Key Trends in Implementation of the Fund's Transparency Policy," can be found at* www.imf.org/external/pp/longres.aspx?id=4040.

66 *The increased transparency of the IMF is widely recognized. In its* 2006 Global Accountability Report, *One World Trust ranked the IMF third out of 10 intergovernmental organizations and fourth out of 30 intergovernmental and private transnational companies in terms of transparency. The report can be read at* www.oneworldtrust.org/?display=index_2006.

67 *The Executive Board's calendar for FY2007 and a description of its main activities can be found on the CD-ROM. General information on the governance of the IMF can also be found on the CD-ROM, in the* IMF Handbook. *The list of Executive Directors and their Alternates on April 30, 2007, is on pages 68–69. The voting power of each member is shown in Appendix IV, on the CD-ROM.*

of finance or the head of its central bank. All governors meet once a year at the IMF–World Bank Annual Meetings. There are two committees of Governors that represent the whole membership. The International Monetary and Financial Committee (IMFC) is an advisory body of 24 IMF Governors (or their Alternates) representing the same countries or constituencies (groups of countries) as the 24 Executive Directors.

The IMFC advises, and reports to, the Board of Governors on matters relating to the latter's functions in supervising the management and adaptation of the international monetary and financial system, and in this connection reviewing developments in global liquidity and the transfer of resources to developing countries; considering proposals by the Executive Board to amend the Articles of Agreement; and dealing with disturbances that might threaten the system. It has no decision-making powers. The IMFC normally meets twice a year, in March or April and in September or October, at the time of the Spring and Annual Meetings.

The Development Committee (formally, the joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body composed of 24 World Bank or IMF Governors or their Alternates; it advises the Boards of Governors of the IMF and World Bank on critical development issues and on the financial resources required to promote economic development in developing countries. Like the IMFC, it also normally meets twice a year.

Under the Articles of Agreement, the IMF's Executive Board is responsible for the selection of the Managing Director of the Fund. Any Executive Director may submit a nomination, regardless of nationality, for the position.[68] The Managing Director is appointed for a five-year, renewable term. He/she, in turn, with the concurrence of the Executive Board, appoints a First Deputy Managing Director and two Deputy Managing Directors to provide managerial support, one of whom chairs the Board in the Managing Director's absence. The Managing Director is chief of the operating staff of the IMF and conducts the ordinary business of the IMF under the direction of the Executive Board. He/she is ultimately responsible for all aspects of the internal management and working of the institution and its relations and communications with the outside world. The three Deputy Managing Directors share oversight of the IMF's relationship with individual member countries, chair selected Executive Board meetings, and oversee staff work in specific areas.

The IMF's staff is appointed by the Managing Director, and its sole responsibility is to the IMF. At April 30, 2007, the IMF had 2,005 professional and managerial staff and 673 staff at other levels. Eighty-two members of the professional and managerial staff were resident representatives stationed in Africa, Asia and the Pacific, Europe, the Middle East, and Latin America and the Caribbean, covering a total of 92 member countries. Resident representatives, through their professional expertise and familiarity with local conditions, contribute to the formulation of IMF policy advice, monitor countries' economic performance, and coordinate technical assistance; those in low-income countries take part in discussions on poverty reduction strategies. Resident representatives also alert the IMF and the host country to potential policy slippages, provide on-site program support, and play an active role in IMF outreach, working with different branches of government, civil society organizations, donors, and other stakeholders.

The framework for human resource management in the Fund reflects evolving best practices that are consistent with the mission of the institution and the objective of maintaining the quality and diversity of its staff. The Articles of Agreement state that the efficiency and technical competence of Fund staff are expected to be of the "highest standards," and that, in appointing the staff, the Managing Director "shall . . . pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible." In addition, all staff members observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the IMF Code of Conduct and its Rules and Regulations.

Recognizing that the membership must have at its service individuals who understand, through their professional experience and training, a wide range of policymaking challenges that confront country officials and who can offer policy advice appropriate to the circumstances of each of the 185 member countries, the Executive Board has long emphasized and expressed concern about diversity, and has repeatedly called for improvements in the diversity of the staff. The Fund thus makes every effort to ensure that staff diversity reflects the institution's membership, actively seeking candidates from all over the world. It recently established a Diversity Council to further its diversity

68 *On July, 12, 2007, the Executive Board adopted a decision setting out procedures for the nomination and selection of the Managing Director; see* www.imf.org/external/np/sec/pr/2007/pr07159.htm.

Table 5.1 Administrative budgets, FY2005–08[1]

(In millions of U.S. dollars)

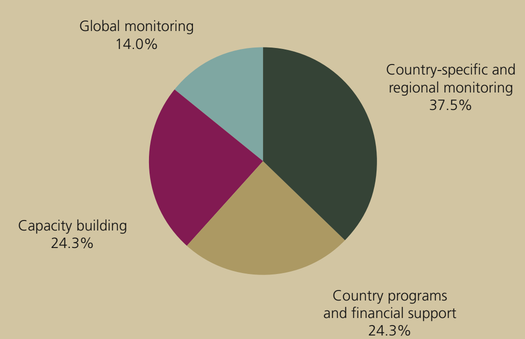
	FY2005 Actual expenditures	FY2006 Actual expenditures	FY2007 Budget	FY2007 Actual expenditures	FY2008 Budget
Administrative expenditures					
Personnel					
Salaries	375.2	392.6	407.5	404.1	424.6
Benefits and other personnel	259.5	273.9	292.7	303.4	298.5
Subtotal	**634.7**	**666.5**	**700.2**	**707.5**	**723.1**
Other					
Travel	90.2	94.2	102.0[2]	93.2	100.5
Buildings and other	167.3	169.6	177.9	159.7	170.2
Subtotal	**257.5**	**263.8**	**279.9**	**258.3**	**270.7**
Gross expenditures	**892.2**	**930.3**	**980.2**	**965.8**	**993.8**
Receipts	(66.1)	(56.0)	(68.3)	(68.5)	(71.4)
Net administrative expenditures	**826.1**	**874.4**	**911.9**	**897.2**	**922.3**

Note: Figures may not add because of rounding.

1 Administrative budgets as approved by the Board for the financial years ending April 30, 2007, and April 30, 2008, compared with actual expenditures for the financial years ended April 30, 2005, April 30, 2006, and April 30, 2007.

2 Includes $5.0 million as a contribution to the costs of holding the Annual Meetings in Singapore.

Figure 5.1 Estimated gross administrative expenditures by key output areas, FY2007



agenda, building on the creation in 1995 of the position of Diversity Advisor. Progress is monitored and problems are reported in a transparent manner in various formats—including the *Diversity Annual Report*—on the IMF Web site. Of the IMF's 185 member countries, 142 were represented on the staff at the end of 2006. Tables showing the distribution of the IMF's staff by nationality, gender, and developing and industrial countries are on the CD-ROM (CD-Tables 5.1, 5.2, and 5.3), as is a table showing the staff salary structure (CD-Table 5.4).

The list of the IMF's senior officers and the IMF organization chart are on pages 70 and 71, respectively, of this *Report*. The organization of the IMF and the functions of its different departments are described in the *IMF Handbook*, which can be found on the CD-ROM.

Box 5.4 Performance indicators

The IMF plans to introduce several types of performance indicators (PIs) progressively, including the following:

- Quantity indicators for all final outputs, and quantity and quality indicators for support and governance activities, along with quality indicators for selected final and intermediate outputs, will be introduced beginning in FY2008.
- Timeliness indicators and other PIs designed to capture the IMF's responsiveness will be phased in over a longer period.
- Further analytical work will be undertaken to examine the feasibility of introducing selected outcome indicators—in particular, intermediate-outcome indicators (regarded as operationally more relevant than final-outcome indicators)—and the need for improved cost-monitoring techniques, to facilitate the use of cost indicators in the budget and business-planning processes.

Work is also under way to introduce supportive information technology applications and to establish a continuous review process for the PIs to help ensure their continued relevance to the IMF's strategy and business model.

Administrative and capital budgets

The administrative budget provides for the personnel and travel costs and other recurrent administrative expenditures incurred by the IMF in providing services to member countries and the international community. The annual budget covers the period May 1 through April 30, the IMF's financial year, and is approved by the Executive Board on a net basis (defined as gross expenditures less receipts).[69] The Executive Board also approves a limit on gross expenditures, based on an upper range of the estimate for receipts. The IMF's net administrative expenditures are funded from operational income, which includes charges on the use of IMF resources, and from reserves.

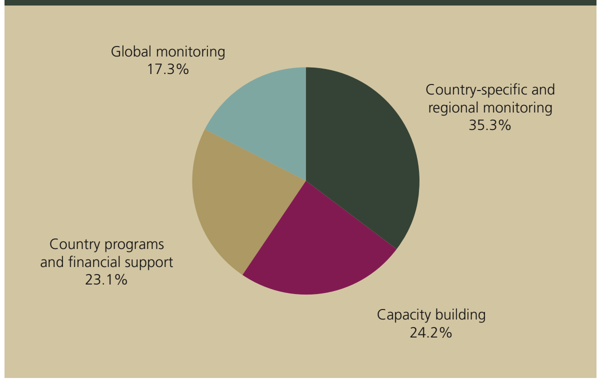
The IMF's capital budget provides funds for capital projects starting in the forthcoming financial year; the projects approved form part of the three-year capital plan that covers all new capital projects. Capital appropriations can be accessed for three years; funds unused at the end of the three-year period lapse.

Budgets and actual expenditures in FY2007

The IMF's administrative budget for the financial year that ended April 30, 2007, authorized total net expenditures of $911.9 million, a limit on gross expenditures of $987.1 million, and appropriations of $48.1 million for capital projects beginning in FY2007. The Executive Board also took note of indicative net administrative budgets of $929.6 million and $952.8 million for FY2008 and FY2009, respectively, and the three-year capital plan of $141 million.

The development of the MTS, the review of the IMF's employment, compensation, and benefits framework, and the IMF's deteriorating income position have changed the institutional and financial environment in which the IMF operates. Accordingly, the FY2007–09 budgets approved by the Executive Board reflected a planned reduction in the overall size of the IMF's real administrative resource envelope and marked the beginning of a downward trend in planned capital expenditures. FY2007 net expenditures were to be held constant in real terms, while the planned FY2008 and FY2009 administrative budgets required real reductions. Notwithstanding the proposed declining real resource envelope, the FY2007–09 medium-term budget (MTB) provided the resources necessary for the IMF to deliver its key outputs—including new MTS initiatives—accommodated by increases in the IMF's internal administrative efficiency and reductions in support-related costs.

Figure 5.2 Estimated gross administrative expenditures by key output areas, FY2008



The outturn on the net administrative budget for FY2007 was $897.2 million, $14.7 million (1.6 percent) less than budgeted. Receipts were $0.2 million above the central estimate on which the net administrative budget was based. Gross administrative expenditures were $14.4 million (1.5 percent) below the $980.2 million central estimate.

Actual administrative expenditures were a little below budget because of slightly lower-than-planned use of resources in the delivery of IMF outputs and a shortfall on certain planned outputs: a small number of projects were delayed, so that the associated expenditures will now be incurred in the current financial year. The resources allocated to the delivery of the IMF's outputs in FY2007 reflected the new priorities identified under the medium-term strategy (Figure 5.1). The new multilateral consultation and the extension of the work of the Consultative Group on Exchange Rate Issues (CGER) to a larger number of countries led to an increased share of gross administrative resources being devoted to multilateral surveillance in FY2007 relative to past years.[70] Relative to FY2006, additional resources were devoted to regional and financial sector surveillance (both MTS priorities), while a smaller share of resources was devoted to work on country programs and financial assistance. The share of resources devoted to capacity building (technical assistance and training) was about the same as in previous years.

In terms of inputs, the gap between budget and outturn reflected a number of factors (Table 5.1). Underlying travel expenditures were about 4 percent ($3.8 million) under budget, and buildings and other expenditures were almost 9 percent ($15.2 million) under budget, the latter reflecting lower

69 Just over half of the receipts consist of external donor contributions for technical assistance to, and training of officials from, member countries; the remainder includes proceeds from publications.

70 Both the multilateral consultation and the CGER's work are discussed in Chapter 2.

building-occupancy costs and less use of contractual services than expected. Personnel-related expenses were about 1 percent ($7.3 million) over budget.[71]

Total capital spending in FY2007 was within the budget for projects approved during FY2005–06. Of the $45.6 million in total capital expenditures, $16.1 million was for building facilities, $5.3 million for the IMF's Headquarters 2, and $24.1 million for information technology projects.

Medium-term budget, FY2008–10

The FY2008–10 medium-term budget approved by the Executive Board on April 25, 2007, allows for an underlying 1.7 percent increase each year, thus implying a real reduction in the Fund's administrative resources for the next three years. Executive Directors agreed that, although a new income model—building on the recommendations of the Committee of Eminent Persons (see "Financial Operations and Policies" below)—must play the major role in putting the IMF's finances on a sustainable footing, expenditure restraint is also necessary. To ensure continued delivery of the IMF's outputs in line with the MTS, the additional resources allocated to meet new needs and priorities of member countries are to be more than offset by savings generated through the increased efficiency of existing operations and by scaling back or eliminating lower-priority activities.

For FY2008, the Executive Board approved a net administrative budget of $922.3 million, with an upper limit on gross expenditures of $998.2 million, and took note of the indicative net administrative budgets of $938.0 million and $959.4 million for FY2009 and FY2010, respectively.[72] The Board also approved appropriations of $46.6 million for capital projects and took note of the medium-term capital plan, totaling $138.0 million.

Continuing the budget reforms that began six years ago, in FY2008 the IMF will begin implementing a full medium-term administrative budget supported by three-year business plans for its departments and offices. In addition, as discussed in Box 5.4, the IMF is introducing performance indicators to assist in monitoring the delivery of departments' business plans. It is also taking measures to improve the accuracy of the systems for allocating costs to specific outputs.

Departmental plans indicate that the reallocation of resources in line with MTS objectives is set to continue under the FY2008–10 medium-term budget. Figure 5.2 shows each output's share of total resources for FY2008.

Box 5.5 Safeguard assessments

The IMF's safeguards assessments policy mitigates the risk that loans made to member countries will be misused. Safeguard assessments aim to provide reasonable assurance to the IMF that a central bank's framework of financial reporting, audit, and controls is adequate to manage its resources, including IMF loans (see CD-Box 5.3 on the CD-ROM). In FY2007, the Fund conducted assessments of 12 central banks in member countries, bringing the total number of completed assessments as of April 30, 2007, to 136. Ongoing monitoring of the safeguards frameworks at central banks continues for as long as members have credit outstanding with the IMF (53 central banks at end-April 2007). Central banks have generally embraced the findings of safeguards assessments, and the safeguards assessments policy has enhanced the IMF's reputation and credibility as a prudent lender while helping to improve the operations and control systems of central banks.

In terms of inputs, the FY2008 administrative budget allows for a 3.3 percent structural salary adjustment (the salary structure as of May 1, 2007, can be found in CD-Table 5.4 on the CD-ROM). Changes to travel policies and practices are expected to hold down travel costs. Expenditures on buildings and other items are budgeted to decline, reflecting targeted reductions in support costs.

Modernizing the risk-management framework

During FY2007, the Advisory Committee on Risk Management (ACRM), established in October 2006 and chaired by Fund management, prepared the IMF's first annual report on risk management based on a Fund-wide survey on operational risks. The report, accompanied by reports on the strategic, core-mission, and financial risks faced by the IMF, was reviewed by the Executive Board and discussed in March and April 2007. Executive Directors considered the report and the underlying work to be an important step in the IMF's efforts to integrate and strengthen various aspects of risk management. They stressed the oversight and critical fiduciary responsibility of the Executive Board for risk management, noting that the day-to-day operational aspects of the IMF's risk-management processes are the purview of Fund management.

71 This overrun in personnel-related expenses was more than accounted for by a special one-off transaction of $19 million, approved by the Executive Board, to accelerate payments into the Staff Retirement Plan (SRP) under a program to provide retirement benefits to staff who were formerly employed on a contractual basis.

72 The nominal figures for both FY2008 and FY2009 are below the indicative figures provided last year, principally because of a reduction in inflation.

The reports presented to the Board constituted a comprehensive assessment of the main risks facing the IMF and the measures in place to mitigate them. The findings were that (1) strategic risks were generally well covered with the Medium-Term Strategy in place; (2) core-mission risks were well covered by the Fund's financial policies and strong oversight and review functions (Box 5.5); (3) financial risks—in particular income risk—are being addressed by shareholders; and (4) measures in place to address the key remaining operational risks (defined as those with a high probability of occurrence or a potentially significant impact) are generally adequate.

Notwithstanding the progress achieved thus far, developing a risk-management framework for the IMF remains a work in progress, to allow the Fund to learn from experience and adapt in a timely way to changing circumstances and any new risks future changes may engender. Such a dynamic approach should help the framework evolve in line with emerging international best practices while continuing to give due consideration to the special character of the IMF as a cooperative global institution and provider of public goods.

Streamlining

In a cost-conscious environment, the MTS proposes streamlining IMF operations and reviewing the allocation of resources to refocus them on more strategic issues while strengthening the quality and effectiveness of surveillance. In FY2007, the Executive Board lengthened the cycle for most IMF policy reviews, consolidated some reports, and eliminated others. To enhance the timeliness of surveillance, the Board shortened the interval between the conclusion of Article IV missions and Board discussions. The IMF experimented with streamlined Article IV consultations (see Chapter 2), and procedures in cases of minor misreporting of data by member countries were modified to make them less onerous for both the IMF and the member.[73] The IMF also reviewed certain support services to identify opportunities for delivering outputs more efficiently and at a lower cost.

Financial Operations and Policies

Income, charges, remuneration, and burden sharing

The IMF, like other financial institutions, earns income from interest charges and fees levied on its loans and uses the income to meet funding costs, pay for administrative expenses, and build up precautionary balances. The current framework relies heavily on income from lending. A priority for the IMF in the period ahead is to establish a new model that generates steady, diversified, and reliable long-term sources of income better adapted than the current model to the broad range of the IMF's activities.

Under the current income model, the basic rate of charge (the interest rate) on regular lending is determined at the beginning of the financial year as a margin in basis points above the SDR interest rate (see Box 3.1). These charges are intended to cover the cost of funds and administrative expenses and to achieve an agreed net income target for the year. For FY2007, however, the Board agreed to (1) keep the margin for the rate of charge unchanged from FY2006, at 108 basis points above the SDR interest rate, and (2) temporarily suspend reserve accumulation.

Since November 2000, the IMF has imposed surcharges on credit extended to discourage unduly large use of credit in the credit tranches and under Extended Arrangements and to preserve the revolving nature of IMF financial resources. The IMF also imposes surcharges on shorter-term loans under the Supplemental Reserve Facility (SRF) that vary according to the length of time credit is outstanding. Income derived from surcharges can be placed in the IMF's reserves or used for other purposes as decided by the Executive Board.

Table 5.2 Arrears to the IMF of countries with obligations overdue by six months or more, by type

(In millions of SDRs; as of April 30, 2007)

		By type			
	Total	General Department (incl. SAF[1])	SDR Department	Trust Fund	PRGF-ESF
Liberia	530.8	472.1	28.1	30.6	0.0
Somalia	233.4	213.0	12.4	8.0	0.0
Sudan	1,033.2	953.4	0.0	79.8	0.0
Zimbabwe	84.7	0.0	0.0	0.0	84.7
Total	**1,882.1**	**1,638.5**	**40.5**	**118.4**	**84.7**

Source: IMF Finance Department.

1 Structural Adjustment Facility.

73 *See PIN 06/95, "IMF Executive Board Modifies Procedures in De Minimis Cases of Misreporting," on the CD-ROM or at* www.imf.org/external/np/sec/pn/2006/pn0695.htm.

Box 5.6 Investment Account

The IMF's Articles of Agreement provide for the establishment of an Investment Account (IA) to generate income to help the IMF meet its operating costs. As part of the review of the IMF's finances and financial structure that began in 2004, the IMF's Executive Board supported the need to broaden the IMF's income base given the decline in demand for IMF lending, until then the main source of income.

The IA was established by an Executive Board decision in April 2006 and funded in June 2006 through a transfer of currencies equal to SDR 5.9 billion from the General Resources Account (GRA). The Articles limit the amount that may be transferred to the IA to the equivalent of the Fund's general and special reserves at the time of the decision to make the transfer. The June 2006 transfer was equivalent to the Fund's total reserves at that time.

Before the funding of the IA, reserves formed part of the currency balances kept with creditor members. The transfer of currencies to the IA therefore increased the reserve tranche positions of creditor members. Reserve tranche positions are remunerated at the 3-month SDR interest rate, the implicit return on the Fund's reserves prior to the IA.

The IMF's objective is for the return on the IA to exceed the return on the SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over a 12-month horizon. To achieve this objective, the duration of the IA portfolio is maintained beyond 3-month instruments through investments in eligible longer-term government bonds and other fixed-income securities. External asset managers—including the World Bank, the Bank for International Settlements, and private managers—are entrusted with buying and selling individual securities in accordance with the IA's investment authority, guidelines, and benchmark.

A one- to three-year benchmark index was adopted for the IA. Historical performance suggests that the resulting extension of investment maturities beyond the three-month SDR rate will generate additional income over time.

The IMF also receives income from borrowers in the form of service charges, commitment fees, and special charges. A one-time service charge of 0.5 percent is levied on each loan disbursement from the General Resources Account. A refundable commitment fee on Stand-By and Extended Arrangements, payable at the beginning of each 12-month period under the arrangement, is charged on the amounts that may be drawn during that period, including amounts available under the SRF. The fee is 0.25 percent on amounts committed up to 100 percent of quota and 0.10 percent thereafter. The commitment fee is refunded when credit is used in proportion to the drawings made. The IMF also levies special charges on overdue principal payments and on charges that are overdue by less than six months.

The IMF pays interest (remuneration) to member country creditors on their reserves held by the IMF (known as reserve tranche positions) based on the SDR interest rate. The basic rate of remuneration is currently set at 100 percent of the SDR interest rate (the upper limit permitted under the Articles of Agreement), but it may be set as low as 80 percent of that rate (the lower limit).

Since 1986, the rates of charge and remuneration have been adjusted under a burden-sharing mechanism that distributes the cost of overdue financial obligations between creditor and debtor members. Loss of income from unpaid interest charges overdue for six months or more is recovered by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. Additional adjustments to the basic rates of charge and remuneration are made to generate resources for a Special Contingent Account (SCA-1), which was established specifically to protect the IMF against the risk of loss resulting from arrears. Effective November 1, 2006, the Board decided to suspend contributions to the SCA-1. In FY2007, the adjustments for unpaid interest charges and the allocation to the SCA-1 resulted in an increase to the basic rate of charge and a reduction in the rate of remuneration of 23 basis points. The adjusted rates of charge and remuneration averaged 5.28 percent and 3.74 percent, respectively, for the financial year.

Income in FY2007 fell SDR 111 million short of expenditures. The net income shortfall largely reflects a substantial decline in IMF credit outstanding, from a peak of SDR 70 billion in September 2003 to SDR 7.3 billion at the end of FY2007, owing to low demand for new IMF credit and advance repayments by some members in recent years. The income shortfall will be offset against the Fund's reserves (retained earnings), which amounted to some SDR 6 billion at end-FY2007. The IMF has taken a number of steps to strengthen its income position. The Board's establishment of the Investment Account in April 2006 and its funding with SDR 5.9 billion in June 2006 were the first steps in diversifying the IMF's sources of income (Box 5.6).

The IMFC recognized the need for more predictable and stable sources of IMF income and called on the Managing Director to develop proposals expeditiously. In May 2006, the Managing Director established the Committee of Eminent Persons to Study Sustainable Long-Term Financing of the IMF.[74] The Committee presented its recommendations to management and the Executive Board in early 2007. At its April 2007 meeting, the IMFC endorsed the report as a sound basis for further work on the development of a new income model for the IMF and looked forward to proposals from the Managing Director for consideration by the Executive Board. Work on the development of the new model is a priority for FY08.

Arrears to the IMF

Overdue financial obligations to the IMF totaled SDR 1.88 billion at end-April 2007 (Table 5.2), 83 percent of which was accounted for by Sudan and Liberia; Somalia and Zimbabwe accounted for the balance. At end-April 2007, all arrears to the IMF were protracted (outstanding for more than six months); 39 percent represented overdue principal, and the rest, overdue charges and interest. More than four-fifths represented arrears to the GRA, while the remainder represented arrears to the SDR Department Trust Fund and the PRGF-ESF Trust. Zimbabwe is the only country with protracted arrears to the PRGF-ESF Trust.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied against countries with protracted arrears. As of the end of the financial year, Liberia, Somalia, Sudan, and Zimbabwe remained ineligible to use GRA resources. Zimbabwe continued to be excluded from the list of PRGF-eligible countries and is subject to a declaration of noncooperation. In view of Liberia's strengthened cooperation with the Fund, on October 2, 2006, the Executive Board decided to initiate the de-escalation of the remedial measures that had been applied against Liberia and lifted the declaration of noncooperation.

IMF audit mechanisms

The IMF's audit mechanisms consist of an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that oversees the work of both. The EAC, which also oversees the IMF's accounting, financial reporting, internal control, and risk-management functions, is composed of three members selected by the Executive Board and appointed by the Managing Director. The members serve for three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different IMF member countries at the time of their appointment and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, candidates for the EAC come from international public accounting firms, the public sector, or academia.

The EAC selects one of its members as chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. However, any changes to the EAC's terms of reference are subject to Board approval. The EAC typically meets in person in early January, in late June after the completion of the audit, and in July to report to the Board. IMF staff and the external auditors consult with EAC members throughout the year.

The 2007 EAC members are Dr. Len Konar (Chair), Board Member, South African Reserve Bank; Mr. Satoshi Itoh, former Professor, Chuo University, Japan; and Mr. Steve Anderson, Head of Risk Assessment and Assurance, Reserve Bank of New Zealand.

The external audit firm, which is elected by the Executive Board in consultation with the EAC and appointed by the Managing Director, is responsible for performing the external audit and expressing an opinion on the IMF's financial statements based on the audit. At the conclusion of the annual audit, the EAC transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, to the Board of Governors and briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for five years. Deloitte and Touche LLP is the IMF's external auditor.

The internal audit function is performed by the Office of Internal Audit and Inspection (OIA), which provides independent examinations of the effectiveness of controls, governance processes, and risk management. To meet this objective, OIA conducts about 25 audits and reviews a year. OIA reports to IMF management and to the EAC, thus assuring its independence. In addition, the Executive Board is briefed regularly on OIA's work program and the major findings of its audits and reviews.

The IMF's financial statements for FY2007 form Appendix VI of this *Annual Report* and can be found on the CD-ROM as well as on the Fund's Web site, at *www.imf.org/external/pubs/ft/quart/index.htm.* Readers who wish to receive a print copy of the financial statements for FY2007 may request one from IMF Publication Services, 700 19th Street, N.W., Washington, DC 20431.

74 *The Committee's final report was released in January 2007 and is available on the CD-ROM and on the IMF's Web site, at* www.imf.org/external/np/oth/2007/013107.pdf. *The IMF's press release announcing the release of the report can also be found on the CD-ROM, as well as at* www.imf.org/external/np/sec/pr/2007/pr0718.htm.