INTERNATIONAL MONETARY FUND

Executive Board Progress Report to the IMFC:

The Reform of Fund Governance

April 21, 2010

1. ***Reform package***. Comprehensive reform of Fund governance—encompassing quotas, ministerial engagement and oversight, the size and composition of the Executive Board, voting rules, management selection, and staff diversity—is essential to enhancing the Fund's long-term legitimacy and effectiveness. Although the elements of such a reform (Table 1) are being discussed sequentially, and some could be taken up sooner, most will need to be decided as a package, given the linkages and trade-offs.

2. ***Recent work***. This note does not try to reprise all the governance issues covered in last October's report to the IMFC but focuses on recent deliberations in four areas: quotas, IMFC procedures, selection of Executive Directors, and management selection. As the range of views cannot be done justice in a short note such as this, the associated Board summings up are attached (Attachments 1 and 2). In addition, an update on progress in fostering staff diversity is attached.

Quotas

3. ***2008 reforms***. Realigning quota shares is a core element of the reform package. It is therefore a matter of some concern that the last round of quota and voice reforms from 2008 has yet to be ratified by many members. To date, only 70 out of the required 112 members, representing 73 percent of the total voting power (85 percent is required), have accepted the proposed amendment to the Articles on enhanced voice and participation in the Fund. Prompt acceptance by remaining members is critical.

4. ***Current focus***. Achieving a "shift in quota share to dynamic emerging market and developing countries of at least 5 percent from over-represented to under-represented countries using the current quota formula as the basis to work from" requires agreeing on (i) whether the targeted shift should be to *dynamic* emerging market and developing countries (EMDCs), *all* under-represented countries (including non EMDCs), or EMDCs *as a group*, along with the definition of dynamism, (ii) the size of the shift (whether 5 percent or more), and (iii) whether the formula should be modified, recognizing that ad hoc increases can secure the needed re-alignment. Relatedly, the overall increase in quotas is linked to quota re-distribution in that a larger increase could provide more room for re-alignment.

5. ***Progress***. The Board has begun discussing these issues. Simulations using preliminary data have illustrated that, depending on the answer given to the different formulations in ¶4 above, the IMFC-targeted shift could be achieved using the current

formula as a basis to work from, and alternative scenarios of aggregate quota needs have also been discussed. However, reaching agreement on these issues—and especially so by the target date of January 2011—requires considerably more work. Final data for the quota calculations will be available soon after the Spring Meetings. Agreeing also on the modalities of protecting the voting share of the poorest members—whether through ad hoc increases in quota or a further increase in basic votes—will be part of the forthcoming discussions.

Ministerial Engagement

6. ***IMFC proceedings***. Ministerial engagement in providing strategic direction and oversight of the Fund can greatly enhance the functioning of the institution. However, in its last report on governance reform, the Board indicated that the best means of delivering ministerial engagement remained a matter of some controversy. In particular, the idea of converting the IMFC into a decision-making Council did not command a majority, although many remained open to the idea depending on the progress on quotas and other governance areas. It was therefore suggested that work be undertaken to improve existing structures, notably IMFC processes. As indicated in the attached summing up, the first two items in the list below commanded broad support, at least on a preliminary basis, while the latter ones require further discussion:

- *Agenda-setting*. Early and intensified outreach to members by the IMFC chair for inputs in the preparatory phase would make for better deliberations.

- *Meetings*. Greater use of informal restricted sessions, where appropriate, could foster interaction, although at a possible cost in terms of transparency and broader participation.

- *Inclusive leadership*. A troika leadership model would allow for greater diversity of views at the helm of the IMFC and a smooth transition between chairs, although issues of term length and rotation need to be explored further.

- *Accountability*. One option is an explicit mandate for the IMFC—a body that plays a key role in setting the Fund’s strategic priorities and directions—to hold the Executive Board accountable for progress toward these priorities. A strengthened accountability framework would need to provide for an appropriate delineation of responsibilities among the IMFC, Executive Board, and management.

Executive Board

7. ***Selection***. A strong Executive Board, central to the institution’s decision-making process, remains vital to bringing to bear members’ voice to the operations of the institution. The Board discussed two ideas:

- *All-elected Board*. Abolishing the present dual system of appointed and elected chairs and replacing it with an all-elected system could facilitate quota shifts, accommodate voluntary consolidation of chairs, and create a more level playing field. However, the practical difference such a move might make is debatable, and in any event would require safeguards to maintain a relatively equitable distribution of voting power.

- *Additional Alternate Executive Director*. Another option would be to allow multi-country constituencies to appoint an additional Alternate Executive Director, which could further facilitate realignment of constituencies, albeit with implications for the size of the Board and the budget.

Selection of Fund Management

8. In response to the request of the IMFC in its October Communiqué, the Executive Board has made progress on the adoption of "an open, merit-based and transparent process for the selection of IMF management". In that regard, most Directors underscored that the decision adopted in 2007 on the selection of the Managing Director already includes a number of important elements that contribute to such a process, including the existence of detailed qualification criteria, the establishment of a nomination process and the explicit reference to the fact that the Executive Board will consider the nominated candidates "without geographical preferences".

9. Nevertheless, the Executive Board recognizes that there continues to be scope for improvement. For example, under the 2007 Decision, only Executive Directors are eligible to nominate candidates, and the Executive Board agreed that it would be useful to explore ways in which the nomination process could be opened further. One way this could be achieved would be to permit not only Governors to nominate candidates but also to allow former Governors and Alternate Governors and former Executive Directors to participate in the nomination process. It was recognized that further work was needed in this and other areas, including that of confidentiality and shortlisting.

10. The Executive Board intends to finalize a revised decision on the process for the selection of the Managing Director in the near future. However, the Executive Board recognizes that the extent to which a revised framework for the selection of the Managing Director succeeds in actually creating an open, merit based and transparent process, as called for by the IMFC, will depend on whether the Fund's membership is willing to take full advantage of it.

Staff Diversity

11. ***Progress***. Subject to the requirement of the Articles to secure the highest standards of technical competence, enhancing diversity among staff—by nationality, gender, education, and experience—brings many benefits. Despite progress over the years, there is a clear sense that the pace of these efforts needs to be accelerated. To raise the bar, a diversity scorecard

was recently introduced across all the departments of the institution, for transparent and quarterly reporting of progress in increasing the share of under-represented staff. Attachment 3 provides some details.

Next Steps

12. The Executive Board will continue its deliberations on all the issues on the quota and governance reform agenda, with a view to decide on a comprehensive reform package by January 2011.

Table 1. Key Elements of Governance Reform

Quota and Voice

- Size of the quota shift: whether 5 percent or more
- Re-allocation of shares:
  - Group: dynamic EMDCs/all under-represented/EMDCs as a group
  - Definition of dynamism
  - Allocation mechanism: ad hoc or to all on the basis of calculated shares (selective)
- Formula:
  - Use current formula for now and re-visit the formula in due course
  - Work on improving formula now
- Size of overall quota increase
- Protecting the voting power of LICs—modalities (e.g., ad hoc increase, basic votes)

Ministerial Engagement and Oversight

- IMFC reforms
  - Agenda-setting process
  - Inclusive leadership model
  - Meetings: more informal, conducive to interaction and dialogue
- Decision-making body: activate Council?
- Accountability mandate

Executive Board: Composition, Size, Role and Decision Making

- Composition
- Size
- Appointments versus election of Executive Directors
- Second Alternate Executive Director for multi-country constituencies
- Roles: clear delineation of responsibilities
- Voting rules: reduce special majorities (70–85 percent)?

Management and Staff

- Management selection process
- Staff diversity

March 25, 2010

The Chairman's Concluding Remarks
Fourteenth General Review of Quotas—
Realigning Quota Shares—Initial Considerations
Committee of the Whole on Review of Quotas Meeting 10/1
March 22, 2010

This is our first formal meeting on realigning quota shares in the context of the 14th General Review of Quotas. While we clearly have a lot of work ahead to reach agreement by the January 2011 deadline, I believe we have made a good start and look forward to a spirit of flexibility, pragmatism, and compromise from all sides in the months ahead as we seek a convergence of views.

As many Directors have pointed out, realigning quota shares is critical to enhancing the Fund's legitimacy and effectiveness, but it is only one element of a broader package of reforms. We must make parallel progress on a range of other areas, including on the Fund's mandate and the broader reforms of governance. Also, it is critical for the Fund's credibility that those members that have not already done so take the necessary steps to allow the 2008 quota reforms to become effective as quickly as possible.

Within this broader context, I would like to highlight the following points to help guide our work in the period ahead:

First, I recognize that the views expressed by Directors today are preliminary. This is particularly so because the issues of the size and distribution of the quota increase under the 14th Review are closely inter-linked, although a few Directors noted that discussion on quota share redistribution can progress in advance of agreement on the size of the Fund. Directors will have an opportunity to discuss the size of the Fund in the coming weeks. Also, the derived data set through 2008 based on WEO rather than IFS data as the primary source is only indicative and should be treated with caution, pending finalization of the updated data set.

Second, there were clear differences of emphasis on the broad goals of the quota realignment. Many Directors emphasized as the objective of the review a 5 percent shift in quota shares from over- to under-represented countries, while noting that dynamic emerging market and developing countries (EMDCs) are expected to be the predominant beneficiaries of such a shift. Many others stressed more the importance of a substantial shift in quota share to EMDCs, calling for a shift of at least 5 percent. Reconciling these differences will be an important part of our work ahead.

Third, Directors also expressed differing views on whether EMDCs that are over-represented using the quota formula should be eligible for an increase in quota share if they have met clear criteria for dynamism. Several Directors were open to considering such an increase, and looked forward to further work on how to capture the concept of dynamic EMDCs. A number of Directors were skeptical about the usefulness of such work, noting that such criteria are inevitably judgmental and that dynamism is already captured in the quota formula. A number of other Directors saw scope for better capturing dynamism in the formula itself, thereby reducing reliance on arbitrary mechanisms for quota adjustment.

Fourth, Directors supported the goal of protecting the voting share of the poorest members. Many favored extending this protection to all PRGT-eligible countries, although a few preferred a narrower list; several others did not indicate a preference. Preliminary views were expressed on the modalities. Many Directors were open to exploring all possible options. Many Directors expressed support for setting aside part of any ad hoc increase for the poorest members, and a number of Directors saw merit in considering a further increase in basic votes.

Fifth, Directors noted that it is too early to discuss in detail the modalities for allocating an increase in quotas, pending the finalization of the 2008 data set. That said, many Directors expressed an initial preference for a combination of selective and ad hoc increases. A number of Directors considered it premature to rule out an equiproportional increase at this stage, noting its important role in forging a compromise in the past. Many Directors underscored that over-represented countries should not become under-represented in the process.

Sixth, many Directors maintained the view that the quota formula should not be reopened, given the tight timeframe available for completing the 14th Review. However, others called for further work on the formula to address the remaining shortcomings before it is used again. Directors took note of the discussion in the staff papers on financial contributions to the Fund but generally did not see further work on this topic as warranted at this time.

To conclude, today's discussion has provided useful direction for our future work. Staff will proceed to finalize the 2008 data set, with a view to issuing a paper with updated quota calculations as soon as possible after the Spring Meetings. I hope we will then be in a better position to make progress on the broad range of issues that have been discussed today.

March 31, 2010

The Chairman's Summing Up
IMF Governance Reform—Selected Issues
Executive Board Meeting 10/29
March 26, 2010

Executive Directors welcomed the opportunity to continue discussions on the overall governance reform agenda. With work on key quota and voice reforms and management selection proceeding on parallel tracks, today's discussion focused on two specific aspects, namely, IMFC reform and the case for an all-elected Executive Board. Directors recognized that these issues are also linked with other elements of governance reform, such as Board size and composition, and voting majorities. While all the elements of governance reform may be discussed sequentially, they noted that reforms would ultimately need to be decided on as a package. Their views therefore are only preliminary in nature.

IMFC reform. Directors considered options to strengthen ministerial engagement in providing strategic direction and oversight of the Fund:

Agenda. Most Directors generally saw scope for improving the agenda-setting process, including by intensifying outreach to IMFC members to solicit inputs in the preparatory phase. This would ensure that the agenda contains items with clear value added to the membership. A few Directors envisaged an enhanced role for IMFC Deputies in this process. A few Directors noted that the current practice of discussing the tentative agenda in the Executive Board is adequate.

Inclusive leadership. Most Directors supported, or were open to considering, adoption of a troika model, which would allow a greater diversity of views at the helm of the IMFC and provide for a smooth transition between chairs. Issues regarding the term of office and a rotation scheme still need to be explored in greater detail. A number of other Directors, however, considered that the aims of the reform could be achieved without radical modification to the leadership model.

Meetings. Most Directors saw merit in greater use of informal restricted sessions where appropriate. A few expressed concern that restricting access could undermine transparency and broader participation of the membership, particularly for countries in large constituencies. Many Directors concurred that limiting the number of speakers would facilitate interactive debate and shorten the length of plenary sessions, while some emphasized more the importance of ensuring fair treatment of members. Directors welcomed the reforms introduced recently to the communiqué-drafting process and looked forward to continued improvements.

Accountability. Directors underscored the need for a strengthened accountability framework for the political and technical decisions underlying the work of the Fund. A number stressed that such a framework should cover both the Executive Board and management and also the appropriate delineation of responsibilities, including that between the IMFC and the Executive Board. Many Directors saw benefit in considering giving the IMFC—as a body that plays a key role in setting the Fund's strategic priorities and directions—a mandate to hold the Executive Board accountable for progress toward these priorities. However, other Directors did not see any shortcomings in existing accountability mechanisms.

The IMFC in the longer term. Directors acknowledged that the overlap of the G20 and the IMFC in terms of membership and issues covered raises potential questions of redundancy and coherence. While scope exists for deepening collaboration between the two bodies, for example through holding joint sessions on an ad hoc basis, most Directors preferred maintaining the status quo until there is greater clarity on the outcome of the IMFC reform and the future focus of the G20.

All-elected Executive Board. A few Directors supported, and a number indicated their willingness to consider, eliminating the category of appointed Directors. However, further consideration would be needed on issues related to limits on the percentage of votes that can be cast by any one elected Director, including safeguards to maintain a relatively equitable distribution of voting power. A number of Directors remained unconvinced of the benefits of moving to an all-elected Board, and they viewed this discussion as premature. Most stressed that a decision on this matter cannot be taken in isolation from other governance-related reforms.

Additional Alternate Executive Director for multi-country constituencies. Noting that allowing a larger number of multi-country chairs to appoint a second Alternate Executive Director could further facilitate a realignment of constituencies, a number of Directors supported further consideration of this proposal. A few others noted its implications for Board size and the budget.

Next steps. A brief progress report on governance reforms since the Annual Meetings in Istanbul will be prepared for transmittal to the IMFC ahead of the Spring Meetings. Directors will have further opportunities to discuss all the issues on the governance agenda, including a follow-up on the role of the IMFC, so that these might inform the broader debate on quota, governance, and mandate reforms.

International Monetary Fund

Diversity Scorecard

GOAL 1 - INCREASE THE SHARE OF UNDERREPRESENTED GROUPS

Key Performance Indicator Legend:

- Below 30% of the 2014 Target Percentage Value
- Between 30 and 70% of the 2014 Target Percentage Value
- Above 70% of the 2014 Target Percentage Value

Arrow Color Indicates Magnitude of the Chan

- Below 30% of the required percentage change target
- Between 30 and 70% of the required percentage change target
- Above 70% of the required percentage change target

Arrow Direction (regardless of the color) Indicates:

- An increment of 30% or more from starting value
- An increment of 30% or less from starting value
- No increment or decrement from starting value
- A decrement of 30% or less from starting value
- A decrement of 30% or more from starting value

GOAL 1 IMF LEVEL RESULTS

Year	Key Performance Indicator (KPI) Name	2014 Target Percentage Value	Starting Value	Ending Value	Trending	Actual Percent Change	Minimum Expected Average Percent Change	Key Performance Indicator (KPI) Score	Key Performance Indicator (KPI) Result
2009	Share of A9-B5 level staff from underrepresented regions	36.00%	25.24%	27.33%		2.09%	2.15%	0.76	
	Share of B level staff from underrepresented regions	22.00%	13.15%	13.73%		0.58%	1.77%	0.62	
	Share of B level women staff	20.00%	16.21%	18.30%		2.09%	0.75%	0.92	
2008	Share of A9-B5 level staff from underrepresented regions	36.00%	24.13%	25.24%		1.11%	1.98%	0.70	
	Share of B level staff from underrepresented regions	22.00%	12.10%	13.15%		1.05%	1.65%	0.60	
	Share of B level women staff	20.00%	15.56%	16.21%		0.65%	0.71%	0.82	
2007	Share of A9-B5 level staff from underrepresented regions	36.00%	22.88%	24.13%		1.25%	1.87%	0.67	
	Share of B level staff from underrepresented regions	22.00%	12.68%	12.10%		-0.58%	1.33%	0.55	
	Share of B level women staff	20.00%	16.34%	15.56%		-0.78%	0.52%	0.78	
2006	Share of A9-B5 level staff from underrepresented regions	36.00%	22.84%	22.88%		0.05%	1.65%	0.64	
	Share of B level staff from underrepresented regions	22.00%	14.39%	12.68%		-1.71%	0.95%	0.58	
	Share of B level women staff	20.00%	15.80%	16.34%		0.54%	0.54%	0.81	

The Diversity Scorecard, among other things, measures the Fund's progress towards achieving its diversity benchmarks set for 2009–2014. Regional benchmarks for Africa, East Asia, the Middle East, and Transition Countries have been aggregated to 36 and 22 percent at the A9–B5 (economists and other specialists) and B1–B5 (managerial) levels, respectively. Women's economist and specialized career stream (SCS) benchmarks have been aggregated to a 20 percent target.

The table above tracks the three diversity groupings over the 2006–2009 period:

- Overall representation has grown for each group, in particular in the past two years. However, 11 out of 12 times, it has been less than the expected percentage change to reach the 2014 benchmarks. The sole exception was the increase of B-level (or managerial) women in 2009.

- The share of B-level staff from underrepresented regions is of particular concern, having registered a decline for two out of the last four years. At just over 60 percent of the 22 percent benchmark for 2014, this group is the furthest away from its goal.

- The expected percentage change for each group will get bigger, given the finite timeline to reach the benchmarks and the current trend of below expected growth. Unless the pace of change picks up, these benchmarks could become very difficult to meet as we get closer to 2014.