



CENTER FOR GLOBAL DEVELOPMENT

Presents

***The Reform Challenge: What does the IMF need to do
to become more effective, accountable, and
representative?***

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[TRANSCRIPT PREPARED FROM AUDIO RECORDING]

Lawrence MacDonald: For today's event, The Reform Challenge: What does the IMF need to do to become more effective, accountable and representative. I'm Lawrence MacDonald, Director of Communication and Policy at the Center for Global Development and I bring you first off apologies from our President, Nancy Birdsall, who has been unexpectedly detained. She hopes to join us later in time for the discussion. She asked me to stand in and I was very pleased to do so because it was me who brought this event to her and said, "I really think that we should do this." And I'd like to explain a little bit why.

There are plenty of good solid reports that come out from the IEO with the IMF, evaluation reports. We don't organize events for those, we did for this. And the reason is I think tells something about the special nature of this event. That is, normally as those of you in this room know, the Independent Evaluation Office looks at how the management of the Fund does things or doesn't do things, they make recommendations that are then presented to the board and then the board holds management accountable, says, "What are you going to do in response to this report? What parts of it do you think are valid? How are you going to change what you do and become better in response to this report from the IEO?" This report is quite unusual in that the IEO took on the much larger task of looking at the governance of the Fund including not only the board but in fact the ministers, the countries to whom the board reports and so that changes the dynamic quite a bit. You cannot then have the same situation where the IEO presents the report to the board and the board holds management accountable. This problem how do you hold countries accountable for the way in which they jointly govern the international financial institutions and other multilateral institutions is not unique to the Fund, it's something that's shared by the World Bank and other multilaterals. And part of the answer to that, I think, is to try to get leverage for the findings outside of that closed loop of the staff, management and board. And that's the reason that we've organized this event and the reason that I'm so pleased that you are here because I think a report like this only gets traction if the stakeholders outside of the power structure as it is have an opportunity to interact with it.

Tom Bernes, who will be presenting the report to us, has seen these issues up close and personal. He was the Executive Director for Canada, Ireland and the Caribbean within the IMF and during that time he pushed very strongly for the creation of an Independent Evaluation Office and some of you here know that the first head of that was Montek Ahluwalia of India who is now the Minister of Planning there and also a friend of the Center for Global Development. Tom then went on and among the other positions he held was a secretary to the Joint IMF World Bank Development Committee and again, those of you in this room mostly know that that Development Committee is in fact the finance ministers and some governors of central banks who oversee those institutions. When I first started working for the World Bank everybody was Development Committee this, Development Committee that. Well who is this committee? They're pretty mysterious. And I think that continues to be the case for people who are not

closely involved. Tom had the experience of seeing up close and personal how the committee operates so when he came back to the IEO he has been able to, I think, draw upon that experience in leading this very interesting work. Tom, I look forward to hearing what you found.

And then following Tom's presentation we will have responses from Jo Marie Griesgraber and Amar Bhattacharya. Very pleased to have you here Amar. And then we'll open it to comments and questions from the audience. Tom Bernes.

Thomas Bernes: Thank you Lawrence. It's a pleasure to be here today. In some ways, this is the first public event we've had on this report so we're very thankful to Nancy and for the Center for the invitation to do this and for the efforts you put into it.

The CGD itself has looked at some of the governance aspects of the World Bank, the Inter-American Development Bank, the African Development Bank, some of your reports and touched on some of the same issues, not always with the same conclusions, as I'll point out as I go through my remarks. We of course focus on the Fund but we hope our report will contribute to a broader and informed debate about governance and international organizations. Some have called this evaluation when we undertook it a brave thing to do. I don't know about that but certainly it was challenging and as the report shows this is a very broad and complex issue to look at and one can go off in many directions. I'll try and hit some of the broad main themes as we go through it.

Well a lot of – I mean, governance, I think as you all know, is fundamentally about the process by which decisions are made and about accountability, who is accountable to whom, for what and by what process and it's very important for the sustainable effectiveness of organizations of companies and indeed of governments. Well a lot of time is being focused and attention is being focused in recent months on the quota issue at the Fund, how shares are distributed and held. The broader decision-making process and accountability will also be important in determining the future legitimacy and relevancy of the Fund. I'll briefly try and cover three broad main areas, what we looked at, how we looked at it and what were our main findings and recommendations.

First, what we looked at. Essentially the three principle organs of the IMF governance structure are the IMFC composed of 24 governors meeting twice yearly in charge with advising the Board of Governors on the international monetary and financial system, the Executive Board with 24 executive directors tasked with conducting the business of the Fund, and management, a managing director and three DMDs, deputy managing directors, charged with conducting the ordinary business of the Fund under the general control of the board. Of course the Board of Governors sits at the top and holds ultimate authority and hence accountability. In addition, there are many informal groupings, G7s, G20, G24, which also play important informal roles impacting on the governance system. This stylized view sets out how we saw that process working. In our

report, we focused in particular on what we considered to be the main elements, the IMFC, the Executive Board and the managing director. Perhaps of interest to this group is the absence of the Development Committee. While formally this is a joint committee of the Fund and the Bank, as Lawrence mentioned in his opening remarks, and therefore sits formally in the same position as the IMFC, the reality is that it does not play a significant role in the governance of the IMF system.

Secondly, how did we look at the governance system? I think this is particularly important. This is an evidenced based review. Many reformed proposals have been set out over the years but most were partial and often based on implicit and un-stated assumptions. There is no single model of governance. It will vary enormously but in the end, any system must take account of four dimensions of governance. There are trade offs between these as we try and show and not all can achieve a 100% rating. It is achieving an equilibrium between these that satisfies the largest part of the membership that will determine success. As I say, there are four dimensions, effectiveness, which is the capacity to operate in a timely manner, to agree on goals, strategies and policies, to implement them and to monitor the results. Efficiency, which deals with costs, accountability, which is the ability of members to hold the IMF and its makers to a set of standards, to judge whether they are meeting these standards and to set rewards or sanctions accordingly. And finally voice, which is the ability of IMF members and relevant stakeholders to have their views considered in the decision making process.

In terms of the analytical framework, we have attempted to address IMF governance by looking at firstly the Articles of Agreement and other governing documents and what they said as well as the informal structures I mentioned earlier. Secondly, we sought to look at governance structures and practices that appear in governmental organizations. It's interesting, every organization, multilateral organization says, "Well we're special, we're different, no one is like us, we're unique." And yet we found as we went through it one, all organizations have been asking themselves some of these same questions and secondly, were perhaps not as unique as they think they are. For instance, WHO, most people say, "Well what does that have to do with the IMF it's very different?" But here you have a large multilateral organization, it has a surveillance function in terms of health and what's happening, it has a crisis response mechanism in response to pandemics so here's an organization with a surveillance and responsibility and need to respond to crises, how do they go about decision making processes. So we did learn some things about what to do. We also learned other things that one shouldn't do that's not always best practice. And then finally we looked at principles of good governance developed for the private and public sector organizations in which there has been a lot of progress over recent years.

What did we – what were our information sources? Just very quickly, we obviously did a literature review, an archival search, we produced 15 background papers covering many aspects of the Fund and how it's structured, developed, how it operates in practice, these are all available on our website. And we

undertook surveys of senior Fund staff, of board current and previous members and of government authorities in capitals.

Thirdly, let me turn to what did we find. As one would expect from what I said earlier, there are complementarities and tradeoffs between the four dimensions of governance. However, in our view, if these are left un-addressed we conclude that the current weaknesses could undermine effectiveness over time. And I went one too far in the slides here, sorry. On effectiveness, this we found to be the strongest dimension. Now I would underline that this is a relative and not an absolute statement. It doesn't mean the Fund got it right on every occasion but over time, the Fund has been the organization of choice to respond to systemic crises and has demonstrated an ability to adapt and to move quickly. Accountability and voice were the weakest elements. On accountability, inadequate oversight of management and policy initiatives and no adequate oversight of financial management and ethics, conflict of interest issues by the board or any other body representing the membership. On voice, we found evidence of a chilling effect that deters directors and their authorities, particularly from low-income countries, from challenging management and staff views for fear of negative repercussions.

This assessment led us to four main findings. First, there is a lack of clarity in responsibilities, which undermines transparency and accountability and leads to overlaps and gaps. The IMFC is formally an advisory body but in practice provides guidance to the Fund. The Development Committee, as I said, which has an equal formal role, does not play a similar function. The close involvement of the IMFC or its member in decision making such as selection of the managing director, constrains the board's ability to provide effective oversight over management. Secondly, the board has only limited involvement in functions normally associated with the supervisory board particularly fiduciary oversight as well as of human resource and administrative policies. It has also played, we found, a reactive role in strategy formation and has not been effective in monitoring policy implementation in part because of the policy review process, which – at the Fund, which occurs on a cycle, which is longer than the normal – the median turnover of executive directors and therefore it's a new group without the same background that often ends up reviewing policy implementation. And thirdly, while the principle of a framework to hold management accountable has been agreed in the most recent contract with the managing director and the board, this has not yet been implemented.

Our recommendations flow from these – Jason, sorry. It should be one that says Main Recommendations. There we go. First, we call for clarity on the – thanks – on the respective roles and responsibilities between the political level, their representatives on the board including eliminating the distinction between appointed and elected chairs and management combined with greater transparency and accountability of the system. Second, we call for activation of a formal decision making council of ministers, which is provided for in the articles.

It would set the overarching strategic goals of the Fund, make decisions requiring support at the highest political level thereby contributing to ownership, in our view, by capitals and by ministers and exercise oversight over the institution including the MD and the board. It flows from this the Development Committee should become a Bank only committee aligning structure with reality. Third, the board should meet less frequently and remove itself from many day-to-day operational activities and in our view focus on developing more effective processes to provide oversight of the implementation of agreed policies and strategies as well as on fiduciary and other supervisory functions. This would require major changes in how the board currently operates. Finally, with respect to management, there should be a merit based selection process both for the managing director and the deputy managing directors. An accountability framework needs to be decided upon and implemented holding management accountable for the quality and the outcomes of the Fund's activities.

What did we leave out? Firstly, board size. Literature and experience informs us that a board larger than eight to 12 people introduces inefficiency, free-rider problems and other negative aspects. Nonetheless, there is a tradeoff in that adequate representation cannot be achieved with a board of this size. We therefore call for the smallest size board consistent with the membership view that it is representative. It was interesting that in the survey of national authorities, 60% of respondents said that they viewed the size of the board as acceptable and another 25% wanted a larger board. Now I don't think they wanted a larger board because they thought it may be more effective in controlling management but clearly, they thought that there were representational issues. Secondly, in some of CGD's publications, there was a call for a non-resident board; certainly, this issue was looked at. We did look at this as well but we came to an opposite example. We could not find examples of similar organizations where a non-resident board has been able to perform and achieve the objectives, which we set out. Indeed we've seen problems where the need to ensure representativeness has led to staff positions being designated for nationals of certain countries and the whole process has become un-transparent and un-accountable. And thirdly, there was a clear sense that because the organization is located in Washington and there is a perception that treasury holds a good deal of sway over staff, that the board, a resident board, does provide a counter balancing force to that and without a resident board that that would detract further from the legitimacy from the organization.

Thirdly – this is what we left out – the question of the chairman splitting the role of the managing director and the chairman of the board. We didn't recommend this. The managing director position is one with great responsibility but in fact limited power beyond a convening power and advocacy power. In our view, with a bifurcated role that that would risk diminishing the managing director's power to exercise effective control, it would exacerbate current informational gaps that may exist between and the board and it would lead to confusion as to who speaks for the Fund. Rather we believe that the solution lies in a strengthened board with

board members chairing all board committees, which is not currently the case, and with independent advice being available to board members and finally a framework for holding management accountable, including as we said through the activation of the council, which ultimately we think is only the – the only level, which could effectively hold the managing director accountable.

What next? As I said at the start, this is a complex system and must be viewed holistically. Effective governance means a finally calibrated system of checks and balances. Achieving this will require not only the engagement of the board and management but the active involvement of capitals or ministers and their senior advisors in the process and it will also require interested groups such as this one to remain interested and so that the inertia doesn't win out in the end. Our hope is that our report provides a platform for discussion. As I said earlier, there is no one single model that applies but hopefully by shedding some light both on how the current does operate, how the various dimensions one has to have a political dialogue to reach a common understanding on the weightings to give to them that this will help find the way forward.

I guess lastly, implications for other organizations, now, which may be of interest to some in this room. I mean, I'll leave any details for others to comment on as we clearly only looked at the Fund – evaluated the Fund although we did look at some other organizations. But in so doing, the report does set out a framework, which may be interesting if applied to other organizations. Clearly, our recommendation to make the Development Committee a Bank only committee raises questions for the Bank that it will need to look at. And were the council to be activated – and I say activated because it has been agreed and it is in the articles – if the council is activated what should the Bank do and what is the appropriate role for the balance between input from and role of – accountability of ministers and capitals of the board and of management and similarly for other multilateral development Banks. Well I'll stop there but I'm sure there's lots of food there for questions. Thanks very much Lawrence.

Lawrence MacDonald: Is this microphone working? It is. Okay. Thank you. Just a minute while my colleagues here get water. Thanks very much As you were talking I was looking through the report, which I did not have a chance to get previously and you may want to just hold to answer this later but I was interested in Paragraph 74, "Selection in terms of service of directors. All director positions should be elected." I don't think you discussed that but for those of us who don't understand that issue that certainly caught my eye from the standpoint of exactly how that would work and what that would mean. But perhaps I'll just plant that question and you can come back to it and I'll proceed with the introduction of panelists.

I'm very pleased that we're joined today by Amar Bhattacharya, he's the Director of the Intergovernmental Group of Twenty-Four, or the G24, and I was interested to see, because I hadn't known it before, that International Monetary Affairs is in

fact part of the official name of that group and it was setup specifically to support the 24 emerging market countries in their relations with the IMF and the World Bank. I knew Amar previously when we were both working for the Bank, so it's a real pleasure to have you back today. I look forward to hearing what you have to say. After Amar speaks, we will hear from Jo Marie Griesgraber. Jo Marie is the Executive Director of the New Rules for Global Finance Coalition and was previously Director of Policy at Oxfam America. And Amar was telling me, because I think both he and Jo Marie discussed this with Nancy before, that there is a sort of a logic to this of starting with the most inside view, then getting kind of a middle ground view and then going to a further outside view. So Amar, is somebody who is sort of insider and outsider, which is a position that we at CGD play with some relish as well, I'd be interested to hear your reactions to this report.

Amar Bhattacharya: Thank you Lawrence. I should say about the G24 first of all that it's emerging and developing countries, in fact developing countries, and we are rather proud of that. Having said that, I am not going to speak for the G24 because I really don't know whether we have a view or congealed view and I would be much more interesting if I speak in a personal capacity. Second, I should say that I have had the privilege of actually having participated in a lot of the discussions leading up to this report thanks to Tom **Bernes** and Ruben Lamdany, who I believe is here, and it really has been a learning experience of being part of those discussions.

My strong view is that this report is excellent and path breaking. I think if you measure it by the kinds of evaluations that any other organization has done in terms of scope, in terms of hitting the hard issues and in terms of benchmarking as Tom said evidence based, I don't think you will find any. And I think it is encouraging that the board management are taking it very seriously and proposing, you know, follow-up although it will be useful to discuss that. I do believe though that we will only get real action if there is debate and discussion much more broadly because these issues, as I will discuss, really go to some very difficult and contentious political issues.

I very much, you know, liked the analytic framework, the link between that framework in terms of the four dimensions that Tom mentioned and the lack of clarity of roles, the lack of best practices related to governance. One point I will make about the report, and I'll come back to that, is intentionally it took a very limited focus on the issue of voice and I want to come to that and some of the implications related to that. And in my remarks, let me touch then on those aspects that will have the most difficulty in terms of traction and then set perhaps a basis for discussion.

The first relates to the recommendation for more ministerial engagement and in particular the proposal to transform the IMFC into a council. Now, I expect that that recommendation will not get a lot of traction in the board nor will it get a lot

of traction in many capitals and that's why I want to put it on the table. Why is ministerial engagement so important for reform of the IMF? The most important reason in my view is the IMF today is caught in a gridlock about its basic role. There isn't clarity about the strategic objectives or about the way in which those objectives will be monitored. There isn't agreement on whether – what will be the role of the Fund in terms of the large, the big surveillance issues and the issues of surveillance of advanced countries for example. There isn't agreement about the role of the IMF in terms of the difficult issues of lending to emerging markets in the sense of, for example, insurance. There isn't agreement at all about the role of the IMF in terms of low-income countries. You will only get those kinds of strategic agreements if not only there is ministerial engagement but perhaps only if you have a Bretton Woods Two whereby you can actually have a discussion of what is the institution about and how do we achieve it. If you do not have ministerial engagement, you will have the flip of what we have today, which means the agenda setting will take place in other forum, it will take place in the G7, it will take place in the G20, perhaps not in the G24. But it is absolutely true that if you do not have an effective ministerial engagement you will undermine the IMF and you will keep the IMF in the present gridlock. So I think this recommendation, you know, one can debate the modalities but this recommendation of more ministerial engagement is pivotal and is one which the outside world will need to engage in if you want it to get traction.

The second area of recommendations is the role of the board and what are the likely more contentious aspects about those recommendations. One of the ones that is certainly going to be contentious is this aspect of the supervisory versus the executive function of the board. Now you can debate a lot about what aspects the board should concentrate on or not concentrate on but the fundamental conclusion that the IEO report draws - that the board is perhaps too much micromanaging certain aspects and insufficiently engaged in other important supervisory aspects, like Tom mentioned, holds true and it calls for a debate about how to find that balance. There is a second aspect, which is the size of the board and I will link that to the issue of voice in a moment. There is a whole slew of recommendations on the workings of the boards, frequency of meetings, trying to find a balance between this resident and non-resident board, the terms of service, the role of committees, independent advice, self evaluation, ethical oversight, all of these are very sensible in keeping with the modern practices of corporate governance. I think they need studied examination and a lot of these, I think, are more kind of insider issues but again using the benchmark of outside practice will be very important.

One aspect that is important for this setting is the issue of transparency. I think the recommendations regarding summings up, which appears arcane are very, very important not just for transparency but for effectiveness of the board and I think there is a lot more disclosure that is possible through the summings up. The recommendation to make all board documents available sooner again is a very important recommendation but I would add to that, "What do you mean by board

documents? Are minutes included for example of board meetings?” So you need to have a discussion of what is it that you will disclose and it is important to point out that the discussion of the IMF transparency policies, which has been now pushed off by a year, will be a very important vehicle by which to engage in that debate.

I think on management the two points that – one point that Tom stressed the central importance of an accountability framework and why is that important. Because in the end for those of us who are semi inside in there is basically still a lack of trust and therefore you can only address that if you have a clear accountability framework and an absence of that makes, you know, this thing about well are we going to delegate to management or not. And the other aspect that is stressed is this issue of the code of conduct and the cooling off period.

Now let me talk about – a little bit about not the missing pillar but the half pillar in the report, which is voice and representation. Tom spoke about the chilling effect and that comes essentially from the imbalance of voice and representation and also this kind of thing you are both a client as well as a shareholder. The report talks about two other aspects of voice and representation, the managing director and DMD selection process. We are at a juncture right now where there seems to be the kind of necessary consensus on this issue of MD selection. You know, if you look at what the board members are saying, you know, you look at what the political voices are saying this appears to be the consensus, but there is a danger that when the actual decisions come nothing will happen. So it is extremely important to seal this deal in concrete before we approach the next selection process in the Fund and the Bank and also to stress that the senior management appointments as the IEO report does must be a part of it.

Second, the report talks about the size of the board. Now there is a hidden aspect of it, which maybe I am a little bit freer to talk about, which is this issue of appointed rather than elected directors. By moving to elected directors, it allows constituencies to regroup. And what is the most important regrouping that needs to take place? There is an absolute need to reduce the degree of European chair representation while preserving that of emerging markets and developing countries that is the essence of the McCormick Proposal, which we think is extremely important and you can only achieve that if you have this recommendation about elected chairs, so I think that’s very important.

The other part, which the report doesn’t talk about, is voice and quota reform. Now there are many things that can be said about the spring package but perhaps the way I would put it is it is a small step and it certainly is no giant leap for mankind.

Jo Marie Griesgraber: That’s safe.

Amar Bhattacharya: Now, given that it is a small step there are three things by way of follow-up implications that are important. The first is you do need a process to make further significant process. The resolution that was passed by governors does that but the question is will it have bite. Second, you need a benchmark that is better than the one we have to guide the reform process. You know, we have ostensibly agreed on a quota formula but garbage in is garbage out and a lot of what is going into that quota formula is right now flawed and we have to address that. Now there are general commitments but translating those into actually getting those measures, seeing that in fact you are reflecting the changes in the world economy, seeing that you are reflecting the voice of the disenfranchised is going to be very important and I would really press for that work to start now and not, you know, three years from now in terms of this continual review.

And the last implication is this issue of double majority. Because it will take time to change the weights in a way that give you legitimacy and that give you adequate voice, you know, it is useful to think about the voice at the level of governors, the voice at the level of IMFC, the voice at the level of the board and to see what kinds of decision rules and majorities should apply with respect to what rules. And that discussion, you know, has been put up there, it has been put up there by the managing director but it needs to be followed through on.

Now in closing let me just say one quick word on implications for other organizations. I actually feel that this, as I said, is a best practice report for other organizations in terms of the modern principles of corporate governance and its recommendations as a, you know, from my perspective apply wholesomely and wholeheartedly to the World Bank and to the regional development banks but with a greater degree of ambition, as I said, on voice and representation. Thank you.

Lawrence MacDonald: Amar, thank you very much. A very rich intervention. Tom, if there is something you really want to say I'll give you a chance now otherwise I think we'll go straight to Jo Marie. I'm pleased that Nancy has arrived. You look very comfortable sitting there listening Nancy. I would suggest maybe that after Jo Marie talks I'll relinquish my chair to you so that you can lead the discussion. Jo Marie, over to you.

Jo Marie Griesgraber: Thank you Lawrence and thank you all for coming. And especially a thanks to Tom and to his very excellent staff for the work on the independent evaluation report on IMF governance. It really is a, how do you say, a pioneering work in terms of international organization self-evaluation work. They have a methodology that is very professional and is very inclusive. Now if they invite people to respond and nobody answers that's not their fault. Okay. So keep an eye on the IMF web page, they have a new terms of reference for a new study and how relationships with member governments or other capitals or something like that. Read about it, ask questions, respond. So I think their methodology is very good.

Now, allusion has been made to the current status of the Fund. It's at a very weak position given its financial vulnerability, given that the emerging markets have been running away from it, paying off their debts early and fleeing, including Turkey now has paid up the last emerging market loan as a source of income for the Fund is gone. So now we're looking for oh my God we need steady income. But unanswered is the same question that Amar raised, which is what is the purpose of the Fund? What does the global community need from a global monetary institution and there is no consensus about that. So if we're looking for permanent financial support for what, it's an open question, and it's going to be a political question in the United States when the congress has to deal with the budget request from treasury next year as to whether or not we finance by gold sales and have amendments to the Board of Agreement, whether the U.S. is going to help the Fund become self-financing. Okay. So it will become a hugely political issue in this country and with the new administration, whether, you know, McCain or Obama.

Okay. In the four elements that the report looked at, I want to focus very clearly on accountability. You can have any reform you want, you can speak to any reform but if you don't have accountability we won't know about it and there won't be any consequences of the alleged change. What difference will changing the rules make? Now the – in your version of the study that was done, on Page 9, middle of the page, there is a definition of accountability. The ability of shareholders and possibly stakeholders. Shareholders translated to member governments. Stakeholders, people who are affected by this, whether private sector, NGOs, unorganized people, rich, poor, academics, members of parliament. “To hold the IMF and its decision makers to a set of standards to judge whether they are meeting those standards,” and here's one, “To set rewards or sanctions accordingly.” Being a good Catholic I translate that into punishment. Has anyone ever been punished for a bad policy, a bad outcome? Now you will know the level of accountability at the institution when the board itself – or the report says, “The board does not regularly make a periodic and responsible studies of the costs and benefits of programs.” We don't know if their programs are effective or not by what standard and therefore how can you hold someone accountable, give them pay increases, dock them, fire them at any level in the institution. Okay. It may happen in the lower level, it may happen internally but we don't see it from the outside.

Now another level – another definition of accountability is the one that New Rules used in its report, “High level panel and IMF board accountability,” that we completed last year. And we use the definition that the board – the IEO looked at but chose not to use or really focus on in terms of accountability and that is it has to have evaluation, transparency, participation and an external complaint mechanism. The IEO emphasized the first two as did the New Rules report and that was evaluated. As we know from the report and from practice, evaluation happens at the staff level down. Management is not evaluated, the board

members and board as a body is not evaluated, the governors as a body don't do a self-evaluation so management and governors have no evaluation. It's a really simple analysis, there isn't any and it's a little scary and I want a job there. I really hate being evaluated. I get all teary eyed and crabby when somebody says I have to improve, you know, I don't blame them, it's awkward, it's painful. So on that.

And then there is the transparency issue that Amar addressed. Let me address – I'm going to revert to the evaluation piece later so let me just speak briefly on participation. We've spoken briefly about the quota reform, which was excluded from consideration appropriately in this report. I would say it is not just a very small reform it's really un-apologetically pathetic. This is an institution that is looking for its purpose, which is out of funding whose major members are fleeing from it, who is told that it's irrelevant to the current global financial crisis and they're shifting chairs on the deck as the boat goes down. They reallocated 1.4% of the quota to developing countries, they moved 2.4%, something like that, from under-represented to – I mean from over-represented to under-represented countries and you'll be glad to know that Ireland and Italy are now better represented, I'm glad we all feel better about that. This is a shame in terms of an institution that is needed. Here's why it's worth the fight. It's needed because it's global. The alternative mechanisms for global governance are all the Gs you see listed, the G7, the G20, the Financial Stability Forum, the Bank for International Settlement, these are all exclusive clubs of the rich. So if you believe in democracy and global governance and equity you want the Fund to succeed but the Fund has to help itself. That's essential. And they're not doing it yet, they just are not and I think they might need a little shock to wake themselves up. Okay, so that's on participation.

External complaint mechanism - there isn't one. If populations are harmed in terms of the – there is no evaluation of programs therefore you don't know if populations are harmed. We assume in 60 years there would be some harm we're just told it's not possible to do. The Poverty and Social Impact Assessment Unit was dissolved and incorporated into something else. So how can – yet Tom said, “We need to look at the quality and outcome of board actions and of Fund actions.” You can't do it without evaluation or without a complaint mechanism. So let me revert to that element of accountability that we focus on, which is evaluation. And I would say in that let's look exclusively right now target the managing director. The managing director, according to the Articles of Agreement, “Is hired and can be fired by the board. He is . . .” – he has always been a he, “. . . He is answerable to the board.” You said he should be answerable to the governors. He is answerable to the executive board. If you want to change the articles, you can do that but right now it's the executive board. However, the de facto manner of selection is that the World Bank president is named by the U.S. President. The IMF ED managing director is named by the European finance ministers with the blessing of the U.S. Treasury. That's the political reality. I think Obama or McCain in their first speech in Brussels should say,

“This is a new world, a new America, a new inclusive, we care about the world, blah, blah, blah, and we will not name the World Bank president. At the end of Zoellick’s term, we will not name the next World Bank president and we call on you, we invite you to reciprocate in like manner the selection of the managing director.” You cannot have the process that’s been approved by the board, July 12th of last year. Read it it’s very good, it won’t be implemented because there is no political will behind it. When the European finance ministers named the managing director with the U.S. Treasury that’s the body to whom he is accountable. They’re his electoral base. You don’t change that. You can’t change anything. How can you have a board hold the managing director accountable, have performance evaluations, even if you get around to defining them, which has not yet happened, you can’t – it’s not going to happen. The politics are wrong. The power dynamics are wrong. You have to begin at the top. So let’s start at the top. Let’s do a political, you know, what do they call it, bombing where you have a precision, you know, drop of a bomb and it just, you know, you drop it from space and it just takes out this one little tiny little house. That’s what we want to do. We want precision attack, precision change, surgical strike, that’s what it is, that’s what we want. Okay.

And then you can have performance evaluation of the managing director and then the managing director has a free hand in selecting his deputies and those are no longer, you know, little hidden political appointments that we learn about, and he can then be accountable for his management. And with that, you have to separate the CEO from the managing director at least. That’s my recommendation. I know you don’t like it, I do. But at least you have committees that are free to meet without the managing in the room. Do you know why the board of the IMF loves his office because it’s answerable only to the board and not to the managing director. Directly to the board, not through the managing director. Check the World Bank structure its wrong.

Okay. Now, the real challenge for their report is not what you and I say it’s what happens. I’ve read the press release. I haven’t seen anything else. I’m told I’m out of date, well I know that in many ways, but the press release says, “Oh, we’re all going to do our part.” Yeah, you know, what you tell your kids, “I want you all to do the dishes,” yeah, they’re not done. Nobody is responsible. Nobody gets clobbered for not doing his or her work. Okay. So let’s look at who’s responsible for implementing this. Right now, it’s nobody. Let’s be clear. I hope I’m wrong. I want to learn. Amar and Tom have told me that I’m wrong. I can’t wait to learn how. Thank you.

Nancy Birdsall: Well let me apologize to everybody especially Tom and our excellent, excellent discussants for arriving late. I couldn’t help it, honestly, I wanted to be here. I think I want to just ask one question, which has to do with who should talk next but I’ll ask it of Tom. I mean, we obviously want to hear anything Tom wants to say in response to the comments but the irony is that we should not put Tom into the position of clarifying everything about the IMF because he’s in the

IEO, he's not the IMF, sort of. And that is – but that captures one of the problems that Jo Marie raised implicitly at the end, “To whom is this report addressed?” I guess it's addressed to the board but it's complicated to have a report addressed to the board that is saying things that the board should do as a collective body that the board as a collective body might not have the energy nor the will nor the interests nor the incentives to do. So maybe Tom you could start by saying – commenting on that simple point and then say anything you want about the excellent issues raised by both Amar and Jo Marie.

Thomas Bernes: Okay. Thanks Nancy. I mean, this is an unusual report for us, I think as Lawrence said in his introductory remarks. I mean, normally we look at a policy, how it's been implemented and the report goes to the board but it's an assessment of how staff and management but also how the board has performed. I mean, sometimes there's a lack of clarity . . .

Nancy Birdsall: There's a little bit of that.

Thomas Bernes: . . . in the directions. But this report is clearly different and this report looks at the institution, the governance structure of the institutions. And so while, I mean, formally the report goes to the board, which it did, I mean, it's then released publicly and it will be sent to governors, as we do, and to others and so it really is the responsibility of everybody to respond. And I think as I . . .

Nancy Birdsall: Like the dishes and my children.

Thomas Bernes: Well that is the challenge. I think as I said in my closing remarks before you came.

Nancy Birdsall: Before I got here, sorry.

Thomas Bernes : I mean that is the real challenge and, I mean, we – institutional change at a national level is very hard, at an international level, it's exceedingly difficult. And if we're going to – if there is going to be progress on this it will require the involvement not just of the board, not just of management and not just the two of them but it will also require the involvement of capitals and ministers. And, you know, the board can suggest to their governors that they need to get involved but I think groups such as yours can also play a role in helping to get that message across and groups like Jo Marie's and Amar's. I think the challenge is, and I think Amar put it very well, I mean, there is a lack of interest in some ways on the part of many capitals right now in terms of what the Fund is doing. I mean, this has come out in a number of our evaluations. It came out in the exchange rate evaluation where we found clearly that for a lot of the emerging markets, I mean, their interest was paralleling the interest of the developed economies, which was not much in what the Fund had to do or say and certainly in the interviews that we undertook and the surveys we undertook in this evaluation, you know, that was a message. It came clearly through a number of interviews I sat in on with

ministers who sat on the IMFC saying, “You know, we’ve sort of come. We really don’t have – the agenda is prepared by somebody else beforehand. We don’t know what it is. We’re not making decisions. We’re really quite not sure why we’re there but, you know, there are lots of other meetings that go on so it’s fine but we’ll do it.” But I mean there really was a lack of engagement. And so, I mean, part of, you know, hopefully part of what this report will do is a bit of a wake up call. I mean, governors have ultimate responsibility as I said under the Articles of Agreement and while they have delegated that authority to the board they cannot abdicate their responsibility because ultimately, they are accountable and so it’s up to groups like this, it’s up to national parliaments, it’s up to the media to hold them to that accountability. I mean . . .

Nancy Birdsall: Let me make – try to make – ask you to be a little bit more make a proposal. Should the civil society groups say whoever is currently the chair of the IMFC should . . .

Jo Marie Griesgraber: There isn’t one.

Thomas Bernes: There is none.

Lawrence MacDonald: There is none.

Thomas Bernes: There was the Italian Minister who’s now . . .

Nancy Birdsall: Oh, right. Okay. Oh dear.

Lawrence MacDonald: There will be.

Nancy Birdsall: There will be. So should that person in the future – well I was going to say, you know, somebody should make sure that at least it is discussed or in the communiqué of the G7 plus five that someone should follow-up particularly on some of this key concrete issues, like the managing director selection process and the creation of this – the 85% needed to create this council. Is that an idea? I mean, tell us what we should do in the form of who, whom to address, a person or the leadership of a specific institution?

Thomas Bernes: I agree. I mean, I think Jo Marie thankfully said, “IEO cannot be held accountable for what the Fund does or doesn’t do,” for which I thank her. I particularly was getting worried as she spoke of her Catholic background and, you know, precision, strategic attacks, I mean at the I mean, I think, you know, there are three parties that are going to have to play in this game, I mean, one is the board, one is management and one is the IMFC essentially, the ministerial level, and so I think they all need to be engaged. Now, I mean, the managing director in his statement said he was going to undertake – he welcomed the report and said he was going to undertake a number of initiatives. He has not announced them yet, but, I think, I gave him the question, “Okay, what are you doing, you

said you're going to do some things in the coming weeks?" You know, I know the board is actively looking at a number of these issues and so, yes, you should be going to the board and saying, "Well fine, tell us about it, what are you doing?" I think for the IMFC yes, you should be going to the IMFC. Now we, the IEO, always produce a progress report for each meeting in the IMFC and so clearly in the one coming up for the fall we will say, "This is the major report that came out and this has implications for you in that we would think that you should be looking at this." Now, thanks to Jo Marie, what they do with it is up to them but it's also up to you in terms of encouragement, pressure you can put on.

Nancy Birdsall: Could I ask quickly to Amar and Jo Marie what about if – both of you referred to the managing director issue. Amar said it needs to be – the deal needs to be sealed and concrete and Jo Marie made the point that any deal might not work unless the real powerful actors, namely the EU on one side the U.S. on the other, take the hard step. So what about trying to make something concrete out of that? Building on this report, this excellent report, and saying that this council should be created and there should be a double majority vote in the future in the council where the constituencies can be split, right, by countries. So you could have a double majority country weighted vote and countries per se as a majority for election of the MD. Maybe that's just too complicated an insider but I'm looking for one thing that might come out of this session that we could say seemed to garner a little – a bit of consensus or energy behind it that builds on the report but extends it a little bit as well.

Amar Bhattacharya: From my perspective, I think there are several things you can say and push and let me just take the representational issues. On the MD selection and the president of the World Bank selection there is – there were agreements in the Bank Fund Joint Report of 2001. As Jo Marie said, there was an excellent board statement, which actually says exactly what you say, which is, "On this the decision will be reached by a double majority," on the issue of the MD selection. Unlike many of the other things, this does not require any changes in articles, nothing.

Nancy Birdsall: Anything. Right.

Amar Bhattacharya: It's just political leadership. And there are two pressure points in this, Europe and the United States. This body has, you know, a great amount of weight, I hope, on the people who will make the decision vis-a-vis the U.S. and there isn't on this one I really don't think there is a first mover problem because the two parties are so close. So I think in Europe also the issue is public and I think as long as the deal is done and it needs to be done early enough so that you aren't in that last minute throw.

Nancy Birdsall: Right.

Amar Bhattacharya: That's the point I was making. Having said that, I hope you won't stop there. I think the issue of voice and representation is very incomplete in the IMF it hasn't even started in the World Bank and you need to press very hard on rate – on two things. One is the kind of commitments made, as I said, in the Governor's Resolution and making them meaningful and we'll be happy to sort of give all the ammunition for that. And the second part is to set a higher goal post in the World Bank and a more ambitious timetable. You know, the World Bank after all is a development institution and you have made the arguments more powerfully than anyone so it's a good time right now to actually say – and none of these governance reforms will work in terms of their effectiveness and indeed in terms of their outcome unless you also address these issues of representation.

Nancy Birdsall: Jo Marie, do you want to . . . ? So it's all about getting to the current – the next administration as you said.

Jo Marie Griesgraber: Right, it's about the next administration. It's 100% political. So I would say if you have access to the IMF, the G7 plus five process you should use it. Lawrence, you should use your media contacts because the media doesn't care at all about the Fund, you know, it's absent. How can you think creatively with your media friends about how to get this issue going? I think we should sit down with the – with Barney Frank and with Joe Biden, the chairs of the relevant committees and the Congress, because they are going to have to deal with the IMF and maybe they can, God forbid that I suggest any conditions to legislation, I would never lobby, if you want your gold sales you are – there will be not a tide statement but certainly a good indicator of commitment to progress is a public statement by the President and this new Secretary of the Treasury that this is important to the United States going forward to, you know, reform our role in the world.

Nancy Birdsall: Okay. I think we should give a chance to others. I see some experts in the room for sure, Ted Truman is there, Cinnamon, others, to ask questions. I want to make the point that it would be interesting if anyone who's an advisor or a member of the IMF board who is here to raise his or her hand. I'm concerned that there might not be any, but.

Amar Bhattacharya: Mr. Diary is here.

Nancy Birdsall: Then we definitely give you, if you want, an opportunity to say something. At least you're here that's a start. Okay. It's open to – for comments, questions, to any of our speakers. Yes, go ahead. Introduce yourself and . . .

Mohammed Daïri: I am an Alternative Executive Director in the IMF.

Jo Marie Griesgraber: It's not on.

Nancy Birdsall: It's not on. We can't hear you. And you're representing on what chair?

Jo Marie Griesgraber: He's in the Iranian chair.

Nancy Birdsall: The Iranian.

Mohammed Daïri: I'm from Morocco but and I'm representing a chair comprising, Iran, Afghanistan, Pakistan, Morocco, Algeria, Tunisia and Ghana.

Lawrence MacDonald: Could you please say your name for the transcriber please. Just say your name.

Mohammed Daïri: **Mohammed Daïri**, Alternative Executive Director. Well I have been involved with the Fund for 30 years and I have been an alternative executive director for 14 years now and I can say with confidence that the creation of the IEO is the best thing that happened to the Fund over the past few years. This does not mean that I – although I like very much to report – this does not mean that I agree with all its recommendations and of course the most controversial issue is the creation of the council. I know some people, some people who are strongly against 10 years ago and now are in favor of it and I know others who are very strongly, I mean chairs, also chairs who are strongly in favor and now are kind of silent or, I mean, they are not very sure.

I think that this idea of changing the governance structure and the balance, the vertical balance, is a bit dangerous unless we know where we want to arrive. Because if you want the executive board to be more oversight and give more responsibilities to the managing director and at the same time you are trying to strengthen the oversight of the IMF see all the accounts on the other side, you are shrinking basically the legitimacy of the board. In this case, I would rather have no board at all or I'd rather have the two IMFC and board merge one way or another. Because if you want the board members to behave as officials of the institutions and the representatives of the membership and if they feel that they are no longer responsible and accountable to the membership at large but to a subset of the membership, which is the IMFC or the council, it will kind of alter the structure of the accountability. And in fact there is a strong – there is a big problem here is that now we – the IMFC, which is only an advisory role, it has a huge power. Just being an advisory role, it has a huge power and it basically sets the agenda of the IMF. And I don't say the agenda of the board because the agenda of the board has to a large extent set by the ****. So there's a lot of things to do, I mean, vertically to see where things are going. So I would like issues like that to be discussed. I listen to what you are saying now. Okay, you are taking whatever in the IEO recommendations for granted let's go fight for it. I think it's wrong.

Nancy Birdsall: Okay. So let's hear from some others on that issue. I'm sure no doubt, Tom has thought about that in terms of that particular recommendation. Yes.

Pierre Grosky (sp): Yes, I'm Pierre Grosky (sp?) I used to be at the World Bank so I'm not talking out of specific IMF experience but there was 24 directors anyhow so it's a fairly similar setup. We heard it all over again, what's the purpose of the IMF nowadays, what's the purpose of the World Bank nowadays. And in the definition of the purpose, a lot of the things that follow thereafter are so much easier to identify. If it has now a global governance purpose, it is clear that we need more representation of global interests within the IMF. We cannot just restrict it to local country based interest. We have to look over – we have to expand the role of the board. I have suggested frequently that the next director of the World Bank should be one from the migrant communities that another one could be from the multinational communities. Whatever, we have to open up and turn it into a global one.

But the other thing too is those 24 executive directors sitting there they still even though there is something in the charter that people forget that states clearly that they sit there in their individual capacity and are personally responsible for the institution that is immediately forgotten and they all sit there as representatives of their countries. So if they had been elected and if they had been given independency for a long period, eight years sitting there you're not going to be fired like a Supreme Court, then the whole position of them to act within the board would be completely different. You give a lot of independency to different actors but you don't give it to those people in the global, into this, that can immediately be pulled back from their home offices because they just made something not for their own region but for the world. So really we have to if we are really going to be able to get something out of it and if we're going to put the goal as high as possible, that it should be global governance, then we also have to find a way of getting a truly global entity working not countryside. And I can give this example all over again in El Salvador or Honduras. There are three Honduras outside of Honduras nowadays in terms of economic size. There are two El Salvadors outside of El Salvador in the economic size. There is so much economy outside the country's limits. Look at the whole world of elicited economics that we can see Moises Naim writing about. Who do they belong to, who do they respond to, where are they? They're not part of any specific geographical area. So if we are going to manage to do something really new for the IMF and the World Bank it is to try to get them a global role and that global role has to be played by global players. You won't have a global role by just local players.

Nancy Birdsall: Okay. Great. Maybe I ask Tom or any, Amar or Jo Marie as well to, think about the second point you made I think of it as the two-hat problem for board members. They're supposed to wear an institutional hat and I suppose represent also their constituency that's the second hat. But I think most of us recognize that in most of these multilateral institutions it's very rare that they take off the country hat or the constituency hat and put on the institutional hat. Maybe if any of you want to say anything about that.

Jo Marie Griesgraber: No.

Nancy Birdsall: Anyone else? Ted, can I – you must want to say something. This is something you’ve thought about for a long time. May I impose on you to . . . ?

Ted Truman: Be careful what you wish for.

Nancy Birdsall: Introduce yourself Ted.

Ted Truman: I’m Ted Truman from the Peterson Institute for International Economics. I mean, this is a very interesting, important report, however, I think the comments illustrate and Nancy is pushing on sort of where do we go with it, illustrates one of the – at least one of the many problems, which may be the problem of the institution. I will make two comments, one which is pretty negative and one which is maybe slightly positive. I mean, my concern, which is the negative comment, my concern is – personally is not that you’ll have John McCain or Barack Obama going to Brussels and announcing a change in policy towards the International Monetary Fund and the World Bank but that you will have – you will have them not even embracing the package that is to go to congress, whenever it goes to congress – it would be nice if it went this year but it looks like it’s not, nice, formally, not that it will happen – not that it will pass – but that they will just let it languish, at best let it languish.

Nancy Birdsall: You mean

Ted Truman: Make it worse and never send it to congress. There’s no guarantee that either . . .

Nancy Birdsall: The gold sale you mean.

Ted Truman: Well it’s low. The quota increases, the quota package, the amendments and the gold sale. All three issues are one package . . .

Nancy Birdsall: All of them have to go.

Jo Marie Griesgraber: They all have to go.

Ted Truman: . . . they have to go to congress and none of them could pass without the other. Nothing can happen and is going to happen on any of those issues without they all being passed, they’re all tied together by the U.S. political process. Unless you imagined, which is hard to imagine, that the bill that was sent to congress they split it up and they voted yes on one and not on the other. But even there the two of them have to go. The amendment on the – the amendment aspect of the quotas and the quota increase are tied together. So one – two of the three are absolutely tied and the gold sales is directly tied. So the worst of possible worlds it won’t go at all. The next worst it will go . . .

Nancy Birdsall: And sit.

Ted Truman: . . . on a lukewarm basis and – no offense Tom – this report will be used as ammunition for why none of it should be passed because the whole place is irresponsible and doesn't have any accountability and so forth and so on. So that's – I think that is – that is I think a slightly maybe somewhat parochial but deeper problem. And so I think the strategy for people who are the friends of the Fund, even if we don't all agree about where it should be going and – where it should be going and so forth, will be to try to figure out how to remain friends of the Fund and not look like we're joining the enemies of the Fund.

A slightly more construct – maybe slightly more constructive way of thinking about this might be – and I defer it to you – is that – is to – since many of these issues are parallel in the Bank, right, and you've had an extended process in the Fund that says produce some change, though I would agree not a dramatic change but you've had an extended process for one, one might think that on things like board structure and, I mean, and going to all elected executive directors for example. And the number of the issues, right – one thing that Tom doesn't have - - I mean a lot of the things in this report and a lot of the things like double majority for example all require amendments or all would require amendments so you have another amendment on top of the all amendments you had before. But you can start over again in some sense at the Bank, right, and say, "Well we've achieved a small amount in the Fund, right, we've got it sitting there before the United States Congress. Now we will try to achieve more in the Bank, right. We'll try to get the Bank to leapfrog the Fund in terms of the governance reform process."

So you address the development committee, right, being peeled off. Right. You address some of the shares and the share issues in the Fund in the Bank. You address the same accountability issues in the Bank, right. All of the same issues. The same report could have been – I'm sure could be – I don't know as much about the Bank as they do about the Fund – but the same report could be written almost word for word in the governance area about the Bank. I mean, there are different dimensions actually in terms of the board, like the board role is different in the Bank than in the Fund. There's already – I don't know whether – there's less executive I don't know whether there's more supervision but I think there's less executive. By definition there's more supervision than – yes, but I think there's certainly less executive in the Bank, at least that's always been my impression. So that would be a constructive way of proceeding in some sense. It's not necessarily Tom's way of proceeding but if you were looking for at the Center of Global Development but looking for a way to take this set of issues forward that would be one way to do it without maybe fully endangering what has been achieved. I mean, my view I guess is that if this package does not pass the United States Congress in the next – by the end of the next congress, end of 2010, the world – the world will be worse off.

Nancy Birdsall: Yes. The Fund will further sink into . . .

Ted Truman: It's going to be harder to pull back – you will then – we'll literally start over again. So, enough from me. You asked for it. Thank you.

Nancy Birdsall: Thank you very much Ted. I'm glad I asked. I was looking for something that the Center or any other group could sort of hang onto including Jo Marie, G24. I saw a hand. I think what I'll do is let the others who want to say anything say something and then go back to each of you, please.

Liz Stuart: Thanks. My name is Liz Stuart from Oxfam International. I head relations with the Bank and the Fund for Oxfam. I absolutely agree with the idea of using the Bank – using the reform process at the Bank as a way to leverage further reform at the Fund. And in fact, in the communiqué from the Development Committee in the spring meetings there's room for encouragement in that it was made explicit that the Bank has a different mandate for the Fund, it's a development organization, therefore developing countries need to be much better represented and the implicit statement behind that was you need to have a much more progressive process happening at the bank plus some of the stars are in alignment at the Bank among the board among some of the more progressive executive directors who certainly recognize that there needs to be a radical rethink of the structure of the board and of the function of the board, so that's one way in.

I'm wondering if the other way in is something that Amar mentioned, which is the idea of having a Bretton Woods Two. In fact it's something Prime Minister Gordon Brown, British Prime Minister Gordon Brown, has talked about this week as well. And I'm interested in what does that look like? Would that give us the political space, the capital for putting forward these more radical proposals? How would it happen, when could it happen? And finally just a view on – from the panel here, your view on whether to think to be able to function properly and with trust in low income countries where the Fund needs to find some way . . . [end of recording].

Male: . . .to a very different managed structure of how that function would be managed. Then you'd have other functions that might be more directed to **** countries, how the IMF or the World Bank should respond. There maybe should be a joint management function there. So I would just say that you got to muddle through but before you start worrying about some of these issues of who represents what and how you decide, that you first have to figure out what the functions of your institution are.

Nancy Birdsall: Good, thank you very much. Well I think we have a good set of issues. Maybe we go Jo Marie, Amar, and then give Tom the last word. So reverse the other order.

Jo Marie Griesgraber: Okay, thank you Nancy. Well the outer circle is speaking first. Interesting, very interesting proposals; I think it would be terrific if we could have a Bretton Woods Two. I don't know that it's – I mean it's interesting. I don't see the political configuration there to do it. I think if you have a global – if there's a total collapse with this current financial crisis or the next one, then there will be a need for it and it will be called for it and it will happen. Many NGOs in developing countries would like to take this approach. I have been taking the plotting reformist approach because I don't think it's going to happen. I mean I love conceptualizing that its fun.

Nancy Birdsall: Why don't you do a shadow Bretton Woods?

Jo Marie Griesgraber: We did that in 1994, we already did that.

Nancy Birdsall: Sort of like Porto Alegre to Davos have; anyway.

Jo Marie Griesgraber: Anyway.

Nancy Birdsall: Talk to Liz

Jo Marie Griesgraber: We tried that in 1994 and we'll try it.

Nancy Birdsall: Think about it.

Jo Marie Griesgraber: It's very interesting and the purpose – I would like to then jump to Ernie Preeg's point that okay the fund as a different function so and then suggest that it begin looking at currency and balances and so on between major powers.

Nancy Birdsall: Well there has been, of course.

Jo Marie Griesgraber: There have been conversations. There've been conversations but there's no – the IMF doesn't have the capacity, the technical excellence, to offer the advice in order to be listened to and it doesn't have the diversity of approaches to be listened to by a diverse range of governments. This is why the major countries don't pay any attention to it because they don't have to and they've formed their own exclusive clubs. And it's why the fund has failed in this multi-lateral surveillance to date. It's a good idea, should be doing it, but right now it's totally ineffective.

Nancy Birdsall: I was referring to – well maybe Amar can speak to that, to the group of four that's been struggling with – China, US, Saudi.

Jo Marie Griesgraber: Right, it's a group of five.

Nancy Birdsall: Where the problem is not technical expertise. It's a group of five, sorry.

Jo Marie Griesgraber: It's a group of five.

Nancy Birdsall: It's not technical expertise but

Jo Marie Griesgraber: It's they don't want to do it.

Nancy Birdsall: It's balance in power, right.

Jo Marie Griesgraber: They don't want to do it. The Chinese don't want to change and we can't make them.

Nancy Birdsall: Nor can we make the US.

Jo Marie Griesgraber: Right, right. Its raw power politics and we don't have a global government structure and as long as we claim sovereignty or even who has more nuclear warheads that entitles you a seat wherever at the UN or the IMF. I mean we're talking raw power and so until countries see it in their own best interest to cooperate it doesn't happen. Maybe 100 or 300 years from now things will be different but right now that's not the situation.

Nancy Birdsall: Okay, so we get to Tom before we lose too much because let me encourage you to.

Jo Marie Griesgraber: Okay, those are the two main points.

Nancy Birdsall: Excellent, thank you Jo Marie.

Amar Bhattacharya: Very quickly. The existing debate shall continue. It is the means to attack it are fragmented. I don't know whether many in this room are aware but Gordon Brown has been leading a debate at the heads of Commonwealth discussion on IFI reform and they just came out with a report, the day before yesterday. Now it's a piece meal and it because of this common denominator it doesn't really push the top officials. So the question is how do you really get that fraction. I think it's a challenge and we should really reflect on it is all I'll say. I don't think we'll achieve it by just leaving it to discussions in the boards or even just IMFC as presently configured. I will stay with the status quo. I think Mr. Da'iri's point is extremely important which is this tension between how do you really engage ministers without disenfranchising the board? And we shouldn't just accept the recommendation but we should recognize there's a trade-off. That doesn't mean you don't have to think about how to strike a balance.

And the same goes for this issue of the role of independent directors versus the role of representative directors. There are certain functions that board members play that are appropriately representative. If you are setting norms for the world you want to represent a democratic way. If you are setting oversight functions you want to execute it independently. And there's a trade-off. You won't get the

perfect balance but the question is how might you conceive it including again role of committees. I mean the Wolfowitz affair showed very powerfully the role of committees as a way of separating yourself from the representative and the oversight function.

And the last point I would like to stress is I really do believe that what Liz said, what you suggested, that we might want to use the Bank to in fact pick up because precisely for what Ted said; I really agree full heartedly what Ted said and that might be an area of very productive engagement. Thank you.

Nancy Birdsall: Thank you Amar. Tom.

Thomas Bernes: Okay, well as I said in my remarks, we hope this report will serve as a platform for opening the discussion. I think today shows it's achieving that purpose and these are complex and interrelated issues. I mean just very quickly, I mean Ted's point, I mean progress is uncertain; this report could complicate life here in Washington. I mean progress is uncertain that's true and the fund is growing increasingly irrelevant in large parts of the world – in part because of some of these issues. And so I'm not sure what the trade off is there. We started – I think they all have to be tackled and there are some real issues. I mean just one point, Ted said this would require lots of amendments to the articles. In fact it would require virtually no amendments to the articles. Virtually everything we propose can be done either by resolution of the Board of Governors or through the Executive Board. The – sorry? It can be implemented – different voting majorities can be implemented through resolution. The appointment but I guess to the question which Mohammed raised.

Nancy Birdsall: Not the MD appointment?

Thomas Bernes: Well

Mohammed Dairi: ****

Nancy Birdsall: The top five.

Thomas Bernes: The top five which is five are appointed, the rest are elected. That would require an amendment of the articles. The US of course has also proposed that should take place which would put all ED's on the same basis and would create flexibility as Jo Marie said to allow changes. I mean the point that Mohammed raised about the tension between the board and the IMFC, on one hand he said this raises big questions about the role between the counsel and the board but then goes on to say there are big questions about the role of the IMFC and the board because in fact the board doesn't exercise its authority and the IMFC exercises great authority. Which in part is what we said, the roles today are unclear. The board is not exercising the authorities it should be according to the articles or according to best practice. The IMFC is exercising power but not in a transparent

and accountable way which leads to the conclusion this needs to be addressed. And our recommendation is fine, you activate the counsel which is provided for – I mean it would set the big strategic direction. It would, in our view, appoint the managing director which in reality what it does today in any event. The board's responsibilities would then be to ensure the operationalization of the broad strategy and develop an accountability framework and mechanism for holding management accountable. We think it can work and that providing clarity you can achieve and re-juice the overlaps and the uncertainties that exist today.

Sarbanes-Oxley, we did look at and we did have people advising us from the private sector. In the end this is, it's an inter-governmental organization and there were limits. And one of the things that we did point out is that the current system does not provide for effective fiduciary oversight in our judgment and there is an issue there. It's late in the day so I won't go into the details but one of the background papers that we did release does go into some detail.

I mean the bottom line is I think the process of discussion has started. I think the board and management are serious but will handle it underlined and it stayed underlined. I mean there are – there's going to be a lot of debate on this and I think the risk is that then it will just go on and on and on. So I think what you can do to help to crystallize that and put some pressure on ministers to deliver would be very helpful.

Nancy Birdsall: Okay, thank you very much. Congratulations Tom too – it sounds as though there's general applause for the report. General concern that its original definition was narrow, narrower, no doubt because of the way it had to be. And I frankly am concerned that it's in that half way house between really important but very insider as the size though intensity of this group here suggests. So we do want to work with you and other colleagues; the G24 and other organizations to find a way to, as you suggested, use this report to have a larger conversation and really I think save the IMF in terms for the world's benefit because there are some collective action issues even if lending is falling that we may be sorry we are not able to address at the global level if the IMF continues to sink into irrelevance.

So thank you all very much especially for staying. Do you want to have the last word now? Give you ten seconds but its exit or voice here so be careful or there will be too much exit.

Alvaro Mañana (sp): I'm Alvaro Mañana (sp) and I represent Central America as a senior counselor in the board. We feel we are the most under-represented region in the world, although we have two of the few clients, Honduras and Nicaragua where the IMF has now and I think that you – well first depending on what type of country you are, the IMF represents very different things for you. And here you are talking from the prospective of the rich powerful share holders. You are not taking the prospective of the clients. Okay, and it is critical for us at least to take the prospective of the clients. Not in the sense of how you view governances, how

you view the objectives of the IMF. You know for Nicaragua and Honduras, they don't come to the IMF because they want to. They come to the IMF because they need to. Okay, and our countries therefore have a very different vision and we are going to take this up in the next stage of the IO report that looks at the relations with the countries. But when you ask my governor, you know, how do you relate to IMF, well it depends a lot whether you have a program with IMF or you don't have a program with IMF.

Nancy Birdsall: Okay, Alvaro so I think we should let you come up and have this conversation so that others feel – it's an important point you're making but I think I should make it easy for people to leave if they – because we're way over and invite you to come up.

Male: ****

Nancy Birdsall: Oh, I'm so sorry. My agenda says its 2:00 to 3:30. Event concludes. So please continue and please continue and those of you who can stay and want to hear it; please go ahead.

Alvaro Mañana (sp): So just finish very quickly, I think as many board members felt the voice reform for us is the most critical. But looking at the overall package of reforms and I very much agree with a lot of the recommendations, not necessarily all of them, because of the difficulties in implementation but I would divide them in two. Those that require changes in the articles and those that do not. And I think the issue of the managing director that is going to happen eventually. That the US will agree not to name the President of the World Bank and the Europeans will agree to have an open process of selection of managing director. But that will really not change a lot of things from the prospective of the small countries and the small countries will become more and more important as the clients of the fund for the reasons of that have been explained here. A lot of the emerging economies do not want to come to the fund and even a lot of the more successful smaller developing countries also don't want to come to the fund. Guatemala, Salvador, Costa Rico, Panama, most of Latin America, you know, they are happier dealing with the fund without having a program. But yet our weight is so small that in the overall reform process we do not have that much leverage. It is still the US and the Europeans that dominate this process. Now among the changes that...

Nancy Birdsall: Okay, so now let me ask you to come to the end of your point so we can

Alvaro Mañana (sp): Okay, among the things that could really change the dynamics of the board would be going to election of all the directors. Because as was very properly stated, this would force a rearranging of the constituencies and the rearranging of the voice in the fund. And this two changes, the naming open process for the managing director and the going to elections in the constituencies would make a tremendous difference.

Nancy Birdsall: Okay, thank you very much. Let me make a quick comment and ask Tom or any of the others to respond to this. Building on what Alvaro was saying, my own personal observation from my time in the Inter-American Development Bank is that, it's different in the fund, but that there was an important sense of ownership including by the smallest countries in the IDP, at least of some issues which derived oddly enough stepping back from, at least it's a theory of mine, a hypothesis I can't prove it, from the reality that you had double majority voting to elect the president. So there's a set of rules the president has to come from the region. The president has to command half of the weighted votes. That means the president has to be okay from the point of view of the US. But the president also must command half of each country's, each member country's, votes.

Now it happens to be the case in the IDB that there are a lot of small Caribbean members and there are many small economies in Central America. So you will not have elected a president without some agreement in some form from these tiny economies who otherwise that's their – at least they have that one opportunity. They can build collations to veto a candidate they don't like. They can make deals because of that building collations that affect some possibly effect some future decisions. Because of this characteristic in the IDP there are other rules such as that for long time 35% of all lending had to go to countries that represented only 15% of the total economic value in this country, etc, etc. You're familiar with many of these points.

So this is one reason why the idea of using various special majorities for certain decisions in the context of elected board members, and maybe in the context of the election of an MD has always struck me as more important than it might seem on the face of it. So I don't mean to give a lecture in the last five minutes but perhaps go back to our experts here and see if you have anything you want to say in response to the specific point of Alvaro which is elect all of the directors and to the special majority issue. Has it been neglected or is it built in, do you believe, in the report already. Should there be more work from outside on what issues should command what special majorities?

Thomas Bernes: Okay, very quickly on elected EDs, I mean of course that was a recommendation in our report that all EDs should be elected so. On the question of special majorities on voting. I mean we did say with respect to the counsel because we are aware that there were concerns from a number of developing country chairs that their Ministers could get overwhelmed or over-pressured and when you hear that and you look at the chilling effect of which we found there was a chilling effect.

Nancy Birdsall: In the survey.

Thomas Bernes: In the survey that it led us to say that the special majorities may well be appropriate for a range of decisions to address that question and we recommend

that be looked at. Now we didn't go into the details of precisely what sort of majorities or what sorts of decisions. So I think – because that was a level of detail we didn't think was appropriate for our report; let's get to first base before we get there. But I think it is an area that could just fully be explored by yours and other groups.

Nancy Birdsall: Or maybe by the IEO in some subsequent – to have at least background work done on what has been done in other organizations in which special majority – maybe the G24. Jo Marie, Amar?

Jo Marie Griesgraber: Yeah, on the double majority there's an excellent paper by Peter Chula, Brenten Woods project in the UK which is just really a brilliant piece of work on double majorities. I would want to caution you that there are special majorities already in the fund, a lot of them, that are resented because it's a way of giving the US veto on core issues. So be careful. As someone said, be careful what you ask for to quote Prophet Theodore. So that's one, just one point.

Nancy Birdsall: But Jo Marie let me just say that I think the point is to have use the words, maybe I misused the term special majority. If you needed a special majority of weighted votes and of country votes, then you have blocking power.

Jo Marie Griesgraber: Right, you have it now. You have that already; you have blocking power. And initially the quote of reform did not go through because there was a block. There was blocking and it was the chilling effect that there was a little frost bite in the room which leveraged the quote of reform through; is my understanding. I wasn't in the room. I'm not allowed in the room and I'm not allowed to know but from what I picked up there was some little bit of arm twisting that went on. So...

Nancy Birdsall: So, right. **** special. Be careful.

Jo Marie Griesgraber: On the constituencies and I very much like the ideal of EDs being elected which could trigger a rearrangement of constituencies. You know that all constituencies are now self-selecting and that's how Gana ended up in Middle East North Africa. They said we're not getting the representation we want and need, we're out of here. And the reason that other countries are in the Swiss led constituency is because Switzerland invites them to Geneva every year and they have a nice trip and they get to go skiing and they pay for their this' and that's. Yeah, I mean because Switzerland wants to manage a larger boat. I mean, hello, this is politics. Come on Nancy. You live in Washington.

Nancy Birdsall: I'm not surprised.

Jo Marie Griesgraber: On the issue of longer terms for EDs, I think that makes a lot of sense because two years really guarantees a very weak ED; very, very weak. Especially in the larger constituencies. However, if you have a longer term I would say you

have to do something to allow for removal of executive directors. Right now you get elected for two years and there is no provision in the articles for removal. There are cold blooded – again you revert to raw politics to get people out of office and the leading country says we don't like you anymore and the ED can just sit there and stay, which is not necessarily useful. But if they're there for four years, how do you remove them. Do you have a recall vote? I mean we can get rid of Presidents but it's really hard but you can't get rid of an ED.

Male: Like Supreme Court Judges.

Jo Marie Griesgraber: Well, yes you can. You can impeach a Supreme Court Judge. It's hard. So I think some of these points that we want to look at and I think that the transparency issue is another element that we really want to emphasis.

Nancy Birdsall: So these are points that are in this report to act on.

Jo Marie Griesgraber: To push on and to have a meeting in the IMF and talk about these points. How about that. Replay this video in the IMF with a bigger audience; a feistier board.

Nancy Birdsall: Amar?

Amar Bhattacharya: I think this is exit and voice. Exitable voice.

Nancy Birdsall: Thank you all very much especially those of you who have stayed this long because it illustrates there is a lot of interest and better to have high quality interest then quantity, right.

Thomas Bernes: Absolutely

Jo Marie Griesgraber: Oh yes, quality

Nancy Birdsall: That is just too disburse. Thank you all very much. Thank you. Thank you Tom.