CHAPTER 5

# GOVERNANCE, ORGANIZATION, AND FINANCES


# GOVERNANCE, ORGANIZATION, AND FINANCES

The financial year that ended on April 30, 2008, was a pivotal one of reform and change in the governance, organization, and finances of the Fund.

Efforts over the past few years to enhance the IMF's governance reached a milestone in April 2008 with the approval by the Board of Governors of a dynamic and forward-looking package of quota and voice reforms proposed by the Executive Board. The approved reforms are a significant achievement for the membership, which is seeking to rebalance quotas to reflect the many changes that have occurred in the world economy in recent years—especially the growing economic importance of some of the emerging market countries—and to increase the voice of low-income countries in the Fund's deliberations.

The Executive Board also made considerable progress in placing the Fund's finances on a sound footing. It reached agreement on a new income model, which was approved by the Board of Governors in early FY2009, and approved a medium-term budget that will achieve substantial savings in administrative expenditures.

Other reforms undertaken during FY2008, which were aimed at ensuring the Fund's ability to meet its members' needs despite tightened budget constraints, include increased collaboration with the World Bank and other organizations; a more focused and effective communications strategy; and mechanisms for improving accountability and risk management.

## QUOTA AND VOICE REFORM

On April 28, 2008, the Board of Governors adopted by a large margin a package of important governance reforms proposed by the Executive Board.[66] The reforms are aimed at better aligning the quotas and voting shares (see Box 5.1) of Fund member countries with their weight and role in the global economy and, equally important, enhancing the participation and voice of low-income countries, in which the Fund plays an important financing and advisory role. The Board proposal was part of a two-year reform program approved at the 2006 IMF–World Bank Annual Meetings in Singapore, when initial ad hoc increases in quotas[67] were agreed for China, Korea, Mexico, and Turkey, four of the Fund's most clearly underrepresented member countries.

### Reform package

The main elements in the reform package are as follows:

- ***A more transparent quota formula.*** The reform is based on a simpler, more transparent quota formula than the previous five-formula system. The new quota formula contains four variables—GDP, openness, variability, and reserves—with weights of 50 percent, 30 percent, 15 percent, and 5 percent, respectively. The GDP variable is a blend of 60 percent of GDP at market exchange rates and 40 percent of GDP at purchasing power parity exchange rates. A "compression factor" raises the formula by a power of 0.95, with the effect of reducing the share calculated under the formula for the largest members and raising those for all other countries.[68]

- ***A second round of ad hoc quota increases.*** Together with the 2006 ad hoc adjustments, the cumulative increase in quotas under the reform is 11.5 percent. All members underrepresented under the new formula are eligible for a quota increase under the reform. The following three elements are also included in allocating second-round quota increases:

  - To reinforce the objectives of the reform, several underrepresented advanced countries—Germany, Ireland, Italy, Japan, Luxembourg, and the United States—agreed to forgo part of the quota increases for which they are eligible.

  - Underrepresented emerging market and developing economies with actual quota shares substantially below their share in global GDP in terms of purchasing power parity are to receive a minimum nominal quota increase of 40 percent.

  - The four members that received quota increases in the first round in 2006 remain substantially underrepresented and are to receive a minimum nominal second-round increase of 15 percent.

- ***Five-year reviews.*** To ensure that quota and voting shares continue to reflect developments in the weight of member economies, and to make further progress in closing the gap between actual quota shares and shares calculated under the new quota formula, the reform package calls for the Executive Board to recommend further realignments of quota shares in the context of future general quota reviews, which occur every five years.

66 See "IMF Executive Board Recommends Reforms to Overhaul Quota and Voice," PR 08/64, and "IMF Board of Governors Adopts Quota and Voice Reforms by Large Margin," PR 08/93, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0864.htm and www.imf.org/external/np/sec/pr/2008/pr0893.htm, respectively. See also Resolution 63-2, Reform of Quota and Voice in the International Monetary Fund, on the CD-ROM; and "Reform of Quota and Voice in the International Monetary Fund—Report of the Executive Board to the Board of Governors," on the IMF's Web site, at www.imf.org/external/np/pp/eng/2008/032108.pdf.

67 Ad hoc quota increases for specified members can be approved either during or outside a general review of quotas.

68 Detailed information about the new quota formula, changes in quota and voting shares for individual members, and the proposed quotas for members eligible for ad hoc quota increases can be found in the "Reform of Quota and Voice in the International Monetary Fund—Report of the Executive Board to the Board of Governors" (see note 66). Other key reports related to the Executive Board's deliberations on the reform can be found on the IMF's Web site, at www.imf.org/external/np/fin/quotas/pubs/index.htm.

- ***Increased voice for low-income countries.*** The proposal enhances the voice and participation of low-income countries through two measures requiring an amendment to the IMF's Articles of Agreement:

  - *A tripling of the basic votes of all members*—the first such increase since the Fund's inception. A mechanism is also to be established under the amendment to protect the share of basic votes in total votes going forward.

  - *Additional Alternate Executive Director for chairs representing a large number of countries.* This will benefit the two Executive Directors representing African constituencies.

**Resulting realignment**

As a result of the reform, 54 countries will receive an increase in their nominal quotas, ranging from 12 to 106 percent each, with some of the largest gains going to the dynamic emerging market economies. The combined increase in quota shares for these 54 countries is 4.9 percentage points.

In total, 135 countries will see an increase in voting share of 5.4 percentage points thanks to the combined effects of the increases in quotas and basic votes. Among countries that will see the biggest increase in voting share are Brazil, China, India, Korea, and Mexico.

The proposed amendment of the Fund's Articles of Agreement on basic votes and Alternate Executive Directors will enter into force when the Fund certifies, by a formal communication to all members, that three-fifths of IMF members representing 85 percent of the total voting power have accepted it. Increases in quotas will not become effective until the proposed amendment enters into force. In addition, to become effective, these increases will require consent and payment on the part of eligible member countries. Consents for the proposed quota increases are to be received by October 31, 2008; the Executive Board may extend this period, taking into account, in particular, the need of members to obtain domestic legislative approval. Payment is to be received within 30 days of the later of (1) notification of consent or (2) entry into force of the amendment to the Articles on basic votes and Alternate Executive Directors.

Upon joining the IMF, a country normally pays up to one-fourth of its quota in a widely accepted foreign currency (such as the U.S. dollar, euro, yen, or pound sterling) or in SDRs and the remaining three-fourths in its own currency.

BOX 5.1

### The role of quotas and basic votes

The quota assigned to each of the IMF's member countries is based broadly on the size and other key characteristics of its economy, and it plays an important role in the country's relationship with the Fund. Quotas determine member countries' contribution to the Fund's financial resources, the amount of financial assistance they are eligible to receive from the Fund, their share of Special Drawing Right (SDR) allocations (see Box 5.2), and, in combination with "basic votes," their voting power.

Under the Fund's Articles of Agreement, each member was originally allotted 250 basic votes plus one vote per SDR 100,000 of its quota. Article XII, Section 5*(a)* was adopted as a balance between two alternative bases for determining voting power. On the one hand, given the Fund's role as a financial institution, it was recognized that a member's voting power should reflect the size of its financial contribution to the Fund. On the other hand, it was considered necessary that the Fund, as an intergovernmental organization constituted through a multilateral treaty, pay due regard to the equality of states under international law. The role of basic votes is to enhance the relative voting power of members whose quotas are below the average for the membership as a whole; many of these members are low-income countries.

The tripling of basic votes will raise the ratio of basic votes to total votes from 2.1 percent to 5.5 percent. A key objective of the amendment is to ensure that this new ratio, by being expressly provided for in the Articles, will not decline as a result of any quota increases that may take place after the amendment becomes effective.

Governance reform at the Fund is an ongoing process, and completion of the reform agenda approved in Singapore will open the door for further reforms in the future.

## ADEQUACY OF FUND RESOURCES

The IMF conducts general reviews of members' quotas at least once every five years to assess the adequacy of its resource base and to adjust the quotas of individual members to reflect changes in their relative positions in the world economy. The Executive Board approved on December 28, 2007, a report to the Board of Governors recommending that the Thirteenth General Review of Quotas be concluded without an increase or any adjustments to quotas, noting in its report to the Board of Governors that while the size of the Fund has declined against a range of economic and financial indicators, the IMF's current liquidity position is at an all-time high. The Board also noted its intention to monitor closely and assess the adequacy of IMF resources during the Fourteenth General Review, which began upon completion of the Thirteenth Review. The Board of Governors adopted a Resolution concluding the Thirteenth General Review effective January 28, 2008.[69] Total quotas stood at SDR 217.4 billion on April 30, 2008.

69 See "IMF Executive Board Recommends to Governors Conclusion of Thirteenth General Quota Review," PR 08/02, and "IMF Board of Governors Approves Conclusion of Quota Review," PR 08/13, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0802.htm and www.imf.org/external/np/sec/pr/2008/pr0813.htm, respectively.

## FINANCIAL OPERATIONS AND POLICIES

### Income, charges, remuneration, and burden sharing

Since its inception, the IMF has operated based on an income model heavily reliant on income from its lending activities, which may fluctuate widely, depending on members' financing needs. In this model, the IMF earns income from interest charges and fees levied on its lending and uses that income to meet funding costs and administrative expenses and to build up precautionary balances. On April 7, 2008, the Executive Board agreed on a substantial reform of the Fund's income model; the reform will allow the IMF to establish other steady and reliable long-term sources of income in the coming years (see below).

The basic rate of charge (the interest rate) on regular lending under the current income model is determined at the beginning of each financial year as a margin in basis points above the SDR interest rate (see Box 5.2).

BOX 5.2

### Special Drawing Rights

The SDR is a reserve asset created by the IMF in 1969 in response to the threat of a shortage of international liquidity. SDRs are "allocated"—distributed—to members in proportion to their IMF quotas. Since the SDR's creation, a total of SDR 21.4 billion has been allocated to members—SDR 9.3 billion in 1970–72 and SDR 12.1 billion in 1979–81. Today, the SDR has only limited use as a reserve asset. Its main function is to serve as the unit of account of the IMF and some other international organizations and a means of payment for members in settling their IMF financial obligations. The SDR is neither a currency nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways: first, through the arrangement of voluntary exchanges between members; and second, by the IMF's designating members with strong external positions to purchase SDRs from members with weak external positions in exchange for freely usable currencies.

The value of the SDR is based on the weighted average of the values of a basket of major international currencies, and the SDR interest rate is a weighted average of interest rates on short-term instruments in the markets for the currencies in the valuation basket. The method of valuation is reviewed every five years. The latest review was completed in November 2005, and the IMF Executive Board decided on changes in the valuation basket effective January 1, 2006. The SDR interest rate is calculated weekly and provides the basis for determining the interest charges on regular IMF financing and the interest rate paid to members that are creditors of the IMF.


Atrium of IMF Headquarters 1 building, Washington, D.C.

For FY2008, the Board agreed to keep the margin for the rate of charge unchanged from FY2007, at 108 basis points above the SDR interest rate. For FY2009, the Board decided to lower the margin to 100 basis points, guided by the principles that the margin should cover the Fund's intermediation costs and the buildup of reserves, and that it should be broadly aligned with long-term credit market conditions. This new approach to setting the margin is expected to make the rate of charge more stable and predictable, fulfilling one of the goals of adopting a new income model.

Surcharges (level-based) are levied on large use of credit in the credit tranches and under Extended Arrangements. The IMF also levies surcharges on shorter-term financing under the Supplemental Reserve Facility (SRF) that vary according to the length of time credit is outstanding (see Table 4.1).

In addition to charges and surcharges, the IMF receives income from borrowers in the form of service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each credit disbursement from the General Resources Account (GRA). A refundable commitment fee on Stand-By and Extended Arrangements is charged on the amounts that may be drawn during each 12-month period under an arrangement. The fee—0.25 percent on amounts committed up to 100 percent of quota (and 0.10 percent thereafter)—is refunded as credit is used in proportion to the drawings made. The IMF also levies special charges on overdue principal and on charges that are overdue by less than six months.

On the expenditure side, the IMF pays interest (remuneration) to member countries based on their creditor positions with the Fund (known as reserve tranche positions). The basic rate of remuneration is currently set at the SDR interest rate. The Articles of Agreement permit the basic rate of remuneration, less any burden-sharing adjustments, to be set no lower than 80 percent of the SDR interest rate.

The rates of charge and remuneration are adjusted under a burden-sharing mechanism established in the mid-1980s that distributes the cost of overdue financial obligations to the Fund equally between creditor and debtor members. Loss on income from interest charges that are overdue (unpaid) for six months or more is recovered by increasing the rate of charge and reducing the rate of remuneration. The amounts thus collected are refunded when the overdue charges are settled. In FY2008, the average adjustments for unpaid interest charges resulted in an increase to the basic rate of charge and a reduction in the rate of remuneration of 19 and 17 basis points, respectively. The adjusted rates of charge and remuneration averaged 4.90 percent and 3.47 percent, respectively, in FY2008.

The burden-sharing mechanism also contemplates adjusting the basic rates of charge and remuneration to generate resources to protect the IMF against the risk of loss resulting from arrears; those resources are kept in the Special Contingent Account (SCA-1). Effective November 2006, however, the Board decided to suspend additional contributions to the SCA-1. On March 14, 2008, a partial distribution of SDR 525 million from the SCA-1 was made following arrears clearance by Liberia and as part of a financing package to fund IMF debt relief for Liberia through bilateral contributions (see Chapter 4).

Income in FY2008 was SDR 126 million short of expenditures. The continued low level of IMF credit

Town Hall meeting at IMF headquarters, Washington, D.C.

outstanding negatively affected the income situation. The lower lending income was partly offset by the strong performance of the Investment Account (IA), which was established in April 2006 and funded in June 2006. The IA earned a cumulative return of 5.32 percent, net of fees, outperforming the three-month SDR interest rate by 162 basis points. Overall, the IA benefited from movements in government bond yields, reflecting policy interest rate cuts in the United States and the United Kingdom and a flight to quality spurred by recent turmoil in financial markets.

**The IMF's new income model**

The Executive Board reached a landmark agreement in April 2008 to revamp the IMF's income model, which, together with a new medium-term budget (see below), is expected to put the institution's finances on a sound footing. Support from the membership was broad, with the IMFC endorsing the new income-expenditure framework in its Communiqué of April 2008. In May 2008, the Board of Governors overwhelmingly approved the related proposed amendment of the IMF's Articles of Agreement to expand its investment authority.

The IMF's new income model is based on the principles set out in the January 2007 report of the Committee of Eminent Persons.[70] The Committee found that the income model under which the IMF had operated since its inception was not sustainable. Instead, the Committee recommended a set of measures that would provide the IMF with additional broad-based and predictable income sources more suitable for financing the wide range of its functions and responsibilities, which include public goods such as surveillance of members' economic policies.

Building on the Committee's recommendations, in late FY2008 the Executive Board agreed on the following measures:[71]

- ***Proposing an amendment of the Articles of Agreement to expand the Fund's investment authority,*** which would allow the Fund to broaden its investments and enable it to adapt its investment strategy as best practices evolve. It is expected that this measure will increase average returns and also diversify the sources of these returns. Given the public nature of the funds to be invested, the investment policies adopted by the Executive Board under the new authority would take into account, among other things, a careful assessment of acceptable levels of risk. For the foreseeable future, it is intended that these policies will rely on a passive investment approach that closely tracks widely used benchmark indices.

- ***Establishing an endowment*** to be funded by the profits from the sale of some of the IMF's gold holdings. The sale would be strictly limited to the 403 metric tons acquired after the date of the Second Amendment of the Articles of Agreement, which account for one-eighth of the IMF's gold holdings. The endowment would be invested with the objective of generating income while preserving the long-term real value of its resources. A decision authorizing the sale of gold has not yet been taken, but all Executive Directors have indicated either that they are ready to vote in favor of such a decision, or that they will seek approval from their domestic legislatures to enable them to vote in favor of such a decision. Gold sales would be conducted under

70 The report can be found at www.imf.org/external/np/oth/2007/013107.pdf.

71 See "IMF Managing Director Strauss-Kahn Applauds Executive Board's Landmark Agreement on Fund's New Income and Expenditure Framework," PR 08/74, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0874.htm.

72 See "IMF Executive Board Approves Renewal of Standing Borrowing Arrangements," PR 07/270, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2007/pr07270.htm.

strong safeguards to ensure that they do not add to the announced volume of official sales to avoid causing disruptions that would adversely affect gold holders and gold producers, as well as the functioning of the gold market.

- ***Resuming annual reimbursements of the General Resources Account.*** The long-standing practice of recovering the expenses incurred by the Fund in administering the PRGF-ESF Trust will be restored starting from the financial year in which the Executive Board adopts a decision authorizing the sale of the current stock of post–Second Amendment gold. The Trust's capacity for concessional lending will be protected, including by temporarily suspending reimbursement if its resources are likely to be insufficient to support anticipated demand for concessional assistance.

The Committee had also recommended that the IMF invest an equal proportion of the quota resources subscribed by all members as a further source of income that could be varied over the medium term. This proposal, which would also require an amendment of the IMF's Articles, was discussed extensively by the Executive Board. While it received strong support from many Executive Directors, some could not back this option. Accordingly, the investment of quota resources did not have sufficient acceptance from the membership to make it a component of the new income model.

The adoption of all the elements of the new income model may take some time. The proposed amendment of the Articles of Agreement to expand the IMF's investment authority will come into effect when it has been accepted by three-fifths of the members having 85 percent of the total voting power, and this acceptance will require legislative action in most member countries. Gold sales can begin once they are authorized by the Executive Board with an 85 percent majority of the total voting power (some members need to seek legislative approval before they can vote in favor of gold sales), and sales on the market would also be phased over time. Hence, net income shortfalls may continue for a few years until the full benefits of the new income measures and expenditure reductions are realized; the IMF's accumulated reserves will continue to be used to cover these shortfalls.

**Borrowing arrangements**

In November 2007, the Executive Board approved a five-year renewal of standing credit arrangements—the New Arrangements to Borrow (NAB) and the General Arrangements to Borrow (GAB)—between the IMF and a group of members and official institutions whereby they can provide supplementary resources of up to SDR 34 billion (about $54 billion) to the IMF to forestall or cope with an impairment of the international monetary system or to deal with an exceptional situation that poses a threat to the stability of that system.[72] The NAB became effective in November 1998, the GAB in 1962.

**Arrears to the IMF**

Liberia cleared its arrears to the Fund in March 2008 (see Chapter 4). As a result, overdue financial obligations to the IMF (including as Trustee) fell substantially, from SDR 1.89 billion at April 30, 2007, to SDR 1.34 billion at end-April 2008 (Table 5.1). Sudan accounted for about 76 percent of remaining arrears, and Somalia and Zimbabwe for 18 and 6 percent, respectively. At end-April 2008, all arrears to the IMF were protracted (outstanding for more than six months); one-third consisted of overdue principal, the remaining two-thirds, of overdue charges and interest. More than four-fifths represented arrears to the GRA, and the remainder to the SDR Department, the Trust Fund, and the PRGF-ESF Trust. Zimbabwe is the only country with protracted arrears to the PRGF-ESF Trust.

Under the IMF's strengthened cooperative strategy on arrears, remedial measures have been applied to address protracted arrears. As of the end of the financial year, Somalia, Sudan, and Zimbabwe remained ineligible to use GRA resources. Zimbabwe continued to be excluded from the list of PRGF-eligible countries, and a declaration of noncooperation, suspension of technical assistance, and suspension of voting and related rights remain in place.

## MANAGEMENT AND ORGANIZATION

After learning in June 2007 of Rodrigo de Rato's intention of stepping down as Managing Director after the IMF–World Bank Annual Meetings, the Executive Board, which appoints the Managing Director of the Fund (see Box 5.3), put a new selection process in place. In accordance with this process, Dominique

TABLE 5.1

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

(In millions of SDRs; as of April 30, 2008)

| | | BY TYPE | | | |
|---|---|---|---|---|---|
| | TOTAL | GENERAL DEPARTMENT (INCL. SAF)[1] | SDR DEPARTMENT | TRUST FUND | PRGF-ESF |
| Somalia | 235.7 | 214.7 | 12.9 | 8.1 | 0.0 |
| Sudan | 1,009.2 | 929.3 | 0.0 | 80.0 | 0.0 |
| Zimbabwe | 85.3 | 0.0 | 0.0 | 0.0 | 85.3 |
| **TOTAL** | **1,330.2** | **1,144.0** | **12.9** | **88.1** | **85.3** |

1 Structural Adjustment Facility.

Source: IMF Finance Department.

The Executive Board's calendar for FY2008 and a description of its main activities can be found on the CD-ROM.

BOX 5.3

### How the IMF is run

The highest decision-making body of the IMF is the Board of Governors. The Board of Governors consists of one Governor and one Alternate appointed by each member in such manner as it may determine. The Governor is usually the member's minister of finance or central bank governor. The Board of Governors normally meets once a year. The Executive Board is responsible for conducting the business of the Fund, and for this purpose exercises all the powers delegated to it by the Board of Governors. The Executive Board is currently composed of 24 Executive Directors appointed or elected by member countries. The Managing Director of the IMF is appointed by the Executive Board and serves as its Chair.

There are two committees of Governors that represent the whole membership. The *International Monetary and Financial Committee* is an advisory body currently composed of 24 IMF Governors (or their alternates), who are ministers or other officials of comparable rank, and who represent the same countries or constituencies (groups of countries) as the 24 Executive Directors. The IMFC advises, and reports to, the Board of Governors on matters relating to the latter's functions in supervising the management and adaptation of the international monetary and financial system and, in this connection, reviewing developments in global liquidity and the transfer of resources to developing countries; considering proposals by the Executive Board to amend the Articles of Agreement; and dealing with disturbances that might threaten the system. It has no decision-making powers. The IMFC normally meets twice a year, in March or April and in September or October, at the time of the Spring and Annual Meetings. The *Development Committee* (formally, the Joint Ministerial Committee of the Boards of Governors of the World Bank and the IMF on the Transfer of Real Resources to Developing Countries) is a joint World Bank–IMF body composed of 24 World Bank or IMF governors or their alternates; it advises the IMF and World Bank Boards of Governors on critical development issues and on the financial resources required to promote economic development in developing countries. Like the IMFC, it also normally meets twice a year.

BOX 5.4

## Liaison with intergovernmental, international, and regional organizations

The IMF has a long history of collaboration with numerous international and regional organizations. Its collaboration with the World Bank is especially close. Areas in which the IMF and the World Bank collaborate include the Financial Sector Assessment Program, development of standards and codes, the Poverty Reduction Strategy Paper process, the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative, and debt sustainability analyses. In March 2006, the IMF's Managing Director and the World Bank's President created the External Review Committee on Bank-Fund Collaboration. The Committee solicited views from member countries on the nature and practice of Bank-Fund collaboration, which has been guided since 1989 by a formal Concordat. The Committee released its report in February 2007. Following up on this report, known as the Malan Report, the Fund and the Bank developed the Joint Bank-Fund Management Action Plan, which builds on the existing division of labor between the two institutions and identifies specific measures designed to improve coordination on country issues; enhance communication between the two institutions on common issues through new electronic platforms; and improve incentives and central support for collaboration on policies, reviews, and other institutional issues.[1]

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

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

Through its Special Representative to the United Nations, the IMF communicates and cooperates with the United Nations and a number of UN agencies. The Fund's offices in Europe liaise with the Organization for Economic Cooperation and Development, the World Trade Organization, the Bank for International Settlements, the International Labor Organization, and the institutions of the European Union. Collaboration between the IMF and the WTO takes place formally as well as informally, as outlined in their Cooperation Agreement of 1996. IMF staff participate in the Integrated Framework for Trade-Related Technical Assistance and the Aid for Trade Task Force. IMF staff also liaise with the Asia-Pacific Economic Cooperation and several regional groups in Asia, including the Association of Southeast Asian Nations.

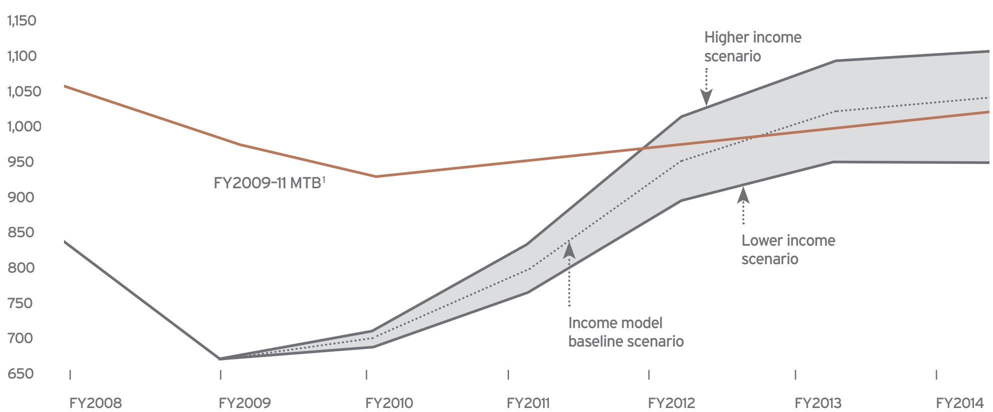
The IMF is an active participant in the meetings and activities of the major intergovernmental groups, including the Group of Seven (G-7), Group of Eight (G-8), Group of Ten (G-10), Group of Twenty (G-20), and Group of Twenty-Four (G-24). The G-10 countries participate in the IMF's General Arrangements to Borrow, an arrangement established in 1962 that can be invoked when supplementary resources are needed to forestall or cope with an impairment of the international monetary system.

1 See "Enhancing Bank-Fund Collaboration: Joint Management Action Plan," PR 07/235, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2007/pr07235.htm. The Plan itself can be found on the IMF's Web site, at www.imf.org/external/np/pp/2007/eng/092007.pdf.

FIGURE 5.1

## Income model and medium-term budget

(Estimated, in millions of U.S. dollars)




1 Includes restructuring expenses, capital budget items expensed, and depreciation.

Strauss-Kahn was appointed in September 2007, and he assumed the position on November 1, 2007.[73]

The financial year was marked by other major changes as well, as the Executive Board continued to look for ways to curb the Fund's administrative expenditures, approving a budget that would result in significant savings, and sought to enhance the Fund's cost-effectiveness through a variety of measures, including improved collaboration with other international and regional bodies (Box 5.4) and a restructuring of the staff.

### Administrative and capital budgets

On April 7, 2008, the Executive Board authorized total net administrative expenditures of $868.3 million for FY2009; a limit on gross administrative expenditures of $966.9 million; and an appropriation of $48.3 million for capital projects in FY2009, as part of a $138 million capital plan for FY2009–11. The Executive Board took note of the indicative net budget envelopes of $880 million and $895 million for FY2010 and FY2011, respectively, that constitute the medium-term administrative budget (MTB). The Executive Board also approved a one-time multiyear appropriation of $155 million to cover the costs of institutional restructuring for FY2008–11, and authorized the carry-forward of up to $30 million of unused resources from the FY2008 administrative budget to the restructuring budget.[74] The brown line in Figure 5.1 displays the estimated total consolidated administrative expenses, FY2008–14.[75]

The strategic considerations underpinning the budget are set out in the "Statement by the Managing Director on Strategic Directions in the Medium-Term Budget," which was submitted to the IMFC at the time of the Spring Meetings.[76] The central goal is to reshape the institution so that it delivers more focused outputs cost-effectively in line with its comparative advantage. The MTB will, among other things, contribute in an important way to bridging the medium-term income gap. It delivers an unprecedented 13½ percent real reduction in spending. Nonetheless, it allows for real increases in resources for such priority activities as multilateral and regional surveillance through reallocations from other areas.

A central priority is to put in place a sustainable budgetary framework as a basis for eliminating the

73 See "IMF Executive Board Moves Ahead with Process of Selecting the Fund's Next Managing Director," PR 07/159, and "IMF Executive Board Selects Dominique Strauss-Kahn as IMF Managing Director," PR 07/211, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2007/pr07159.htm and www.imf.org/external/np/sec/pr/2007/pr07211.htm, respectively.

74 Restructuring costs were estimated to accrue mainly during FY 2008 ($120 million) and FY 2009–11 ($65 million).

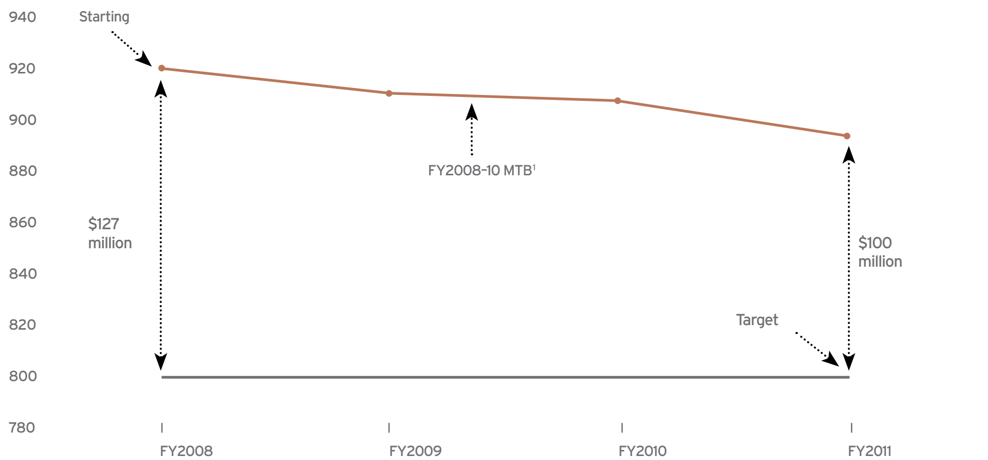
75 Compared with Table 5.4, which shows only the estimated net administrative budget, Figure 5.1 provides a more comprehensive view of estimated administrative expenses as it covers the net administrative budget, capital budget items expensed, depreciation, and restructuring expenses. For FY2008, these items total to $1.061 million, for FY2009 to $989 million.

76 The "Statement by the Managing Director on Strategic Directions in the Medium-Term Budget, April 12, 2008," can be found on the CD-ROM or on the IMF's Web site at www.imf.org/external/pp/longres.aspx?id=4243.

FIGURE 5.2

## The FY2008–10 MTB rolled forward

(In millions of FY2008 dollars)




1 FY2011 figure is calculated assuming the policy stance of a 1 percent real reduction is continued.

TABLE 5.2

## Composition of savings

(In millions of FY2008 dollars)

| | |
|---|---|
| **PERSONNEL SAVINGS** | **67** |
| Efficiency gains | 27 |
| Fewer programs, less review, fewer layers | 16 |
| Fewer resident representatives/overseas staff | 7 |
| Streamline systems and administrative processes | 7 |
| Refocus capacity building | 5 |
| Refocus low-income country work | 2 |
| Refocus surveillance | 2 |
| Eliminate policy overlaps | 1 |
| **NONPERSONNEL SAVINGS** | **33** |
| Travel-related expenses | 10 |
| Less resident representative/overseas office costs | 9 |
| Increased leasing of Headquarters-2 building | 5 |
| Funding investment office through the Staff Retirement Plan (SRP) | 2 |
| Annual Meetings' savings | 2 |
| IT services | 2 |
| Elimination of subsidies | 2 |
| More revenues | 1 |
| **TOTAL** | **100** |

TABLE 5.3

## Real expenditure allocation, FY2008–11

| | IN MILLIONS OF FY2008 U.S. DOLLARS | | REAL PERCENT CHANGE |
|---|---|---|---|
| | FY2008 | FY2011 | |
| Surveillance | | | |
| Multilateral | 28 | 31 | 9 |
| Bilateral | 158 | 137 | –13 |
| *Of which:* Systemic countries | 44 | 53 | 20 |
| Regional | 18 | 22 | 18 |
| Country programs | 122 | 103 | –15 |
| Fund-financed capacity building | 106 | 86 | –19 |
| Support | 313 | 272 | –13 |

Note: FY2008 figures refer to budgeted amounts. Allocations are measured by the gross dollar inputs spent on each output area. Support and governance expenditures have not been allocated across outputs. Columns do not sum to the Fund total because of omitted categories.

income-expenditure gap in FY2013. Looking at the FY2008–14 budgetary period as a whole, as Figure 5.1 illustrates, together with the new income model the MTB is expected to deliver a balance between income and expenditure in FY2013.

About $100 million of this gap is met through expenditure reductions and the rest through income measures. The FY2008–10 MTB envisaged a real reduction of $27 million dollars, or a cumulative 3 percent reduction in real terms. The FY2009–11 MTB goes much further, incorporating an additional real reduction of $100 million, or over 10½ percent. Thus, measured from the FY2008 budget, total savings amount to $127 million, or over 13½ percent (Figure 5.2).

The institution, therefore, has to meet its refocusing needs in the context of a shrinking budgetary envelope. The refocusing has five components:

- Strengthening multilateral surveillance through deeper analyses of macrofinancial linkages, exchange rates, and spillovers originating from systemically important countries.
- Sharpening bilateral surveillance by applying cross-country perspectives to policy issues facing individual countries.
- Refocusing work in low-income countries to emphasize macro-stability, growth, and integration with the global economy.
- Streamlining capacity building by focusing on macro-critical activities and making technical assistance more demand-driven and externally funded.
- Modernizing the Fund by updating business practices and seeking efficiency gains.

The budgetary strategy incorporates four key considerations: providing a framework to help refocus the institution; putting in place a budget framework that will help close the income-expenditure gap in FY2013; maximizing reductions in nonpersonnel expenditure to better exploit technology and enhance organizational efficiency; and reducing personnel-related expenditures fairly, while preserving business continuity.

For the three-year period FY2009–11, there are $33 million in nonpersonnel savings (FY2008 dollars). This includes reductions in travel expenses, the number of resident representatives, and overseas office costs, and the increased leasing of office space. The remaining $67 million in savings are personnel-related (Table 5.2).

The shift of administrative resources across outputs and activities supports the refocusing of the Fund. It moves resources from noncore activities to the core business of the institution, and it reallocates resources within core activities toward priority areas. The MTB provides not only a larger share, but also greater absolute levels of expenditure for certain key areas. The real budgetary allocations to (1) multilateral surveillance, (2) surveillance of systemically important countries, and (3) regional surveillance increase (Table 5.3), while resource allocations to Fund-financed technical assistance and to country programs and support decline. If the Fund succeeds in raising more external financing for TA, the output loss in this area can be mitigated.

The reduction in staffing is the principal reason for the sizable decline in expenditures, since personnel outlays account for nearly three-fourths of the budget. Staff numbers will decline by 380 by FY2011, and most of the reductions are planned for FY2009. As Table 5.4 shows, personnel expenditures fall by 7½ percent in real terms in FY2009, even though average compensation costs are expected to rise 4½ percent. In the outer years, personnel expenditures are budgeted to decline modestly in real terms. Other noteworthy expenditure changes include the following:

- A 6 percent real reduction in travel for FY2009 resulting from a policy decision to reduce travel volumes, the introduction of a new travel policy, and more favorable airline pricing.
- Building and other expenditures fall 6 percent in real terms by FY2011, despite a small nominal rise, because of some necessary information technology (IT) replacements and building refurbishments.
- As the Fund moves toward more external financing of TA and increased leasing of its properties, receipts are expected to rise over the MTB period, although these estimates are subject to uncertainty.

TABLE 5.4

## Administrative budget by major expenditure category, FY2008–11

(In millions of dollars, unless otherwise indicated)

| | FY2007 OUTTURN | FY2008 BUDGET | FY2008 OUTTURN | FY2009 BUDGET | FY2010 BUDGET | FY2011 BUDGET | FY2011 LESS FY2008 BUDGET |
|---|---|---|---|---|---|---|---|
| | | | (Nominal) | | | | |
| Personnel | 708 | 723 | 714 | 697 | 702 | 717 | –6 |
| Travel | 93 | 100 | 94 | 98 | 99 | 99 | –1 |
| Building and other expenditures | 160 | 161 | 158 | 163 | 165 | 170 | 10 |
| Annual Meetings | 5 | 0 | 0 | 0 | 5 | 0 | . . . |
| Reserves | | 10 | | 9 | 13 | 18 | 8 |
| Gross expenditures | 966 | 994 | 967 | 967 | 985 | 1,004 | 10 |
| Receipts | –69 | –71 | –76 | –99 | –105 | –109 | –38 |
| Net administrative budget | 897 | 922 | 891 | 868 | 880 | 895 | –27 |
| | | | (In FY2008 dollars) | | | | |
| Personnel | 736 | 723 | 714 | 670 | 649 | 637 | –86 |
| Travel | 97 | 100 | 94 | 94 | 91 | 88 | –12 |
| Building and other expenditures | 166 | 161 | 158 | 157 | 153 | 151 | –9 |
| Annual Meetings | 6 | 0 | 0 | 0 | 5 | 0 | . . . |
| Reserves | | 10 | | 8 | 12 | 16 | 6 |
| Gross expenditures | 1,004 | 994 | 967 | 930 | 910 | 893 | –101 |
| Receipts | –71 | –71 | –76 | –95 | –97 | –97 | –26 |
| Net administrative budget | 933 | 922 | 891 | 835 | 813 | 796 | –127 |

Source: Office of Budget and Planning.
Note: Figures may not add to totals because of rounding.

Looking at key output areas (Table 5.5), outputs that are expected to absorb greater shares of resources over the MTB are multilateral surveillance, regional surveillance, standards and codes and financial sector assessments, and technical assistance; smaller shares are expected for oversight of the international monetary system, generally available facilities, and facilities specific to low-income countries.

The Executive Board approved an appropriation of $48.3 million for capital projects beginning in FY2009 and took note of the capital budget envelope of $138 million for the following two years. The appropriation for FY2009 provides for expenditures over the next three years: over one-third is for building facility projects, and the remainder for IT projects. In real terms, the capital budget reflects a significant downward adjustment. Over the last decade, real capital expenditures have varied because of, among other things, security enhancements for building facilities and IT expenditures, which are now complete. About one-half of the budget for FY2009 is for projects that preserve the integrity of the Fund's asset base, while most of the remainder includes new and revised projects that will help facilitate the institutional restructuring and refocusing.

### Human resources policies

As part of the reforms undertaken by the IMF in order to refocus its activities, modernize operations, and improve cost-effectiveness and efficiency, a framework to restructure the staff was put in place in early 2008. The restructuring exercise had two main objectives: a reduction of approximately 380 positions, and a change in the staffing structure, with more

TABLE 5.5

## Estimated gross administrative budgeted expenditure shares, by key output area and constituent output, FY2008–11

(In percent of total gross expenditures, excluding reserves)

| | FY2008 | FY2009 | FY2010 | FY2011 |
|---|---|---|---|---|
| Global monitoring | 17.4 | 17.7 | 17.9 | 18.2 |
| Oversight of the international monetary system | 5.2 | 4.6 | 4.7 | 4.7 |
| Multilateral surveillance | 4.5 | 5.1 | 5.3 | 5.5 |
| Cross-country statistical information and methodologies | 3.0 | 3.2 | 3.2 | 3.2 |
| General research | 0.4 | 0.3 | 0.3 | 0.3 |
| General outreach | 4.3 | 4.5 | 4.5 | 4.5 |
| Country-specific and regional monitoring | 35.2 | 36.6 | 36.5 | 36.7 |
| Bilateral surveillance | 28.3 | 28.3 | 28.2 | 28.4 |
| Regional surveillance | 3.1 | 3.6 | 3.7 | 3.8 |
| Standards and codes and financial sector assessments | 3.8 | 4.6 | 4.6 | 4.5 |
| Country programs and financial support | 23.2 | 21.1 | 20.9 | 20.4 |
| Generally available facilities | 10.0 | 8.1 | 8.0 | 7.8 |
| Facilities specific to low-income countries | 13.2 | 13.1 | 12.9 | 12.6 |
| Capacity building | 24.2 | 24.6 | 24.7 | 24.7 |
| Technical assistance | 17.0 | 17.5 | 17.7 | 17.8 |
| External training | 7.2 | 7.1 | 6.9 | 6.9 |
| Total, excluding reserves | 100.0 | 100.0 | 100.0 | 100.0 |
| *Memorandum items* | | | | |
| Support | 31.8 | 30.5 | 30.7 | 31.0 |
| Governance | 9.3 | 9.3 | 9.4 | 9.1 |

Source: Office of Budget and Planning.
Note: FY2008 figures refer to budgeted amounts. Support and governance expenditures are allocated across outputs. Figures may not add to totals because of rounding.

reductions at the managerial and administrative support levels. Fund management was committed to meeting these objectives through a transparent and fair process centering on voluntary separations to the extent possible, recognizing that some mandatory separations would be needed in specific areas. With these objectives in mind, the restructuring framework comprised a voluntary phase and a subsequent mandatory phase, a range of financial and other incentives to encourage voluntary separations, and an independent panel of former senior IMF officials to make recommendations to management on individual separation decisions.

The voluntary phase of the restructuring was successful in meeting both objectives.[77] In implementing the restructuring exercise, measures were put in place to retain (to the extent possible) high-performing staff, and to ensure no undue impact on staff diversity. Outplacement assistance was provided to staff contemplating separation from the IMF, and significant efforts were made to identify employment opportunities in government agencies in member countries, other international financial institutions, and private sector organizations.

The IMF's staff is appointed by the Managing Director, and its sole responsibility is to the IMF. At April 30, 2008, the IMF had 1,950 professional and managerial staff and 636 staff at other levels. The framework for human resource management in the Fund reflects evolving best practices that are consistent with the mission of the institution and the objective of maintaining the quality and diversity of its staff. The Articles of

77 See "IMF Completes Voluntary Separations Phase of Organizational Restructuring," PR 08/94, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0894.htm.

78 A supplemental allowance of $75,350 is paid to cover expenses. See also "Terms of Appointment of Dominique Strauss-Kahn as Managing Director of the IMF," PR 07/245, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2007/pr07245.htm.

79 See "IMF Executive Board Discusses the IMF's Communication Strategy," PIN 07/74, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2007/pn0774.htm.

Agreement state that the efficiency and technical competence of Fund staff are expected to be of the "highest standards." In addition, all staff members are expected to observe the highest standards of ethical conduct, consistent with the values of integrity, impartiality, and discretion, as set out in the IMF Code of Conduct and its Rules and Regulations.

Recognizing that the membership must have at its service individuals who understand, through their professional experience and training, a wide range of policymaking challenges that confront country officials and who can offer policy advice appropriate to the circumstances of each of the 185 member countries, and in accordance with the requirement under the Articles of Agreement to pay due regard to the importance of recruiting personnel on a wide geographic basis, the Fund makes every effort to ensure that staff diversity reflects the institution's membership, actively seeking candidates from all over the world. It has established a Diversity Council to further its diversity agenda, building on the creation in 1995 of the position of Diversity Advisor. Progress is monitored and problems are reported in a transparent manner in various formats—including the *Diversity Annual Report*—on the IMF Web site.

Of the IMF's 185 member countries, 145 were represented on the staff at the end of April 2008. A list of the IMF's senior officers and the IMF's organization chart are on pages 78 and 79, respectively, of this Report. Tables showing the distribution of the IMF's staff by nationality, gender, and developing and industrial countries and the staff salary structure can be found on the CD-ROM. As of July 1, 2007, the salary structure for management was as follows:

| | |
|---|---|
| Managing Director | $420,930[78] |
| First Deputy Managing Director | $366,030 |
| Deputy Managing Directors | $358,600 |

The remuneration of Executive Directors was $219,800; the remuneration of Alternate Executive Directors was $190,140.

## COMMUNICATION AND TRANSPARENCY

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

### Communication

#### *Communication strategy*

In June 2007, the Executive Board discussed the IMF's communication strategy, its fifth discussion on this subject since 1998.[79] It noted the progress made since its last review, in 2005, in integrating communication activities with IMF operations and in increasing the IMF's openness and publication of information. Executive Directors broadly endorsed the overall direction of the communication strategy, which aims at building understanding and support for the role of the IMF and its reform agenda; further integrating communications with operations; and


LEFT: IMF staff, with representatives from Malawian civil society organizations. RIGHT: Spanish version of the IMF's homepage.

increasing the impact of the Fund's electronic and print products and its outreach activities. They agreed that communication was an important tool in promoting international economic and financial stability and helping countries address economic shocks and the challenges of globalization. They also underscored the importance of two-way communication between the Fund and its members and other stakeholders, so that the staff and the institution can benefit from, and respond appropriately to, external feedback.

With respect to the implementation of the strategy, the Board welcomed plans to harness new technologies and modern communication practices—such as more emphasis on Web-based technologies and better alignment of publications with institutional priorities—and to enhance the effectiveness of communication in languages other than English in a cost-effective manner. It also commended efforts to strengthen internal communication, which plays a valuable role in channeling external views, fostering dialogue, and facilitating understanding of the key issues faced by the Fund. Efforts to better disseminate such products as the *World Economic Outlook* and the *Regional Economic Outlooks*, in which the Fund presents its analysis of economic and financial developments, were acknowledged by the Board, and many Executive Directors noted the valuable role played by press releases, press conferences, and other channels in supporting country surveillance activities.

### *Initiatives during FY2008*

In line with the strategy endorsed by the Executive Board, and the refocusing agenda, the IMF continued to enhance its communication and outreach during the financial year. Strengthening Web-based communication and expanding communication in languages other than English continued to be priorities. The Fund's recently revamped Web site was made more user-friendly and the search engine was upgraded. The site featured new items, such as landing pages on key policy issues, and Web sites for civil society organizations[80] and legislators.[81] Blogs were launched during the year by the Fund's Chief Economist and by its Fiscal Affairs Department, with the latter focusing on public financial management. Web sites in languages other than English that are heavily used in the Fund's work were revamped or added, and material (such as summaries of, and press releases about, the *World Economic Outlook* and the *Global Financial Stability Report*) for which demand is high were translated and posted on these sites. The Fund's 2007 *Annual Report* was translated into Arabic, Chinese, French, German, Japanese, Russian, and Spanish, three more languages (Arabic, Japanese, and Russian) than in the past.

The Fund also sharpened the focus of its outreach, undertaking a number of outreach activities in FY2008 with parliamentarians and civil society organizations (CSOs). For example, in sub-Saharan Africa, it organized seminars for the Tanzanian Parliament's Finance and Economic Affairs Committee and CSOs in Dar es Salaam; for CSOs in Malawi;[82] and for parliamentarians, nongovernmental organizations, and trade unions in Liberia. Engagement with the media has deepened, as operational staff have increased their contacts, and multimedia technologies permit the IMF to reach a broader media audience. For example, a biweekly media briefing initially intended for media based in Washington, D.C., has since developed into a webcast for journalists around the world. The Online Media Briefing Center, a password-protected multimedia site, allows journalists to access documents under embargo, participate in press briefings, and receive information and data tailored to their needs.[83]

### Transparency policy

The IMF's transparency has increased dramatically in the past decade.[84] The current policy stems from an Executive Board decision in January 2001 to encourage the voluntary publication of country documents and more systematic publication of policy papers and associated Public Information Notices (PINs) that provide a summary of the Executive Board's assessment. The decision followed steps that had been taken since 1994 to enhance the transparency of the IMF and to increase the availability of information about its members' policies, while including safeguards to maintain the frankness of the IMF's policy discussions with members by striking the right balance between transparency and confidentiality. Members may request deletion of information not yet in the public domain that constitutes either highly market-sensitive material or premature disclosure of policy intentions.

Following their discussion in FY2006 of an IMF staff review of the transparency policy, Executive Directors called on the staff to produce annual updates on the policy's implementation for posting on the IMF's Web site. The third annual report on the implementation of

80 See www.imf.org/civilsociety.

81 See www.imf.org/external/np/legislators/index.htm.

82 See "Tanzania and Malawi Seminars for Legislators, CSOs, and Media," on the IMF's Web site, at www.imf.org/external/np/exr/cs/news/2008/022008.htm.

83 See CD-Box 5.1, "Disseminating Information: The IMF's Publishing Operations and Web Site," on the CD-ROM.

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

the transparency policy, published in February 2008, presents information on documents considered by the Board between November 1, 2006, and October 31, 2007, and published by December 31, 2007, including publication rates for each type of document, lags between Executive Board discussions of documents and publication, deletion of material from documents, and the publication behavior of member countries.[85] Publication rates for country staff reports remained high, at 83 percent.

## ACCOUNTABILITY

### The Independent Evaluation Office

The Independent Evaluation Office was established in 2001 to conduct independent and objective evaluations of IMF policies and activities with a view to increasing the IMF's transparency and accountability and strengthening its learning culture. Under its terms of reference, the IEO is fully independent of IMF management and operates at arm's length from the IMF's Executive Board, to which it reports its findings.

After an external evaluation of the IEO in FY2006, the Executive Board established a framework in January 2007 to ensure more systematic follow-up and monitoring of the implementation of Board-endorsed recommendations in IEO reports. The framework calls for a forward-looking implementation plan to be presented to the Board soon after its discussion of an IEO evaluation, and for the state of implementation of actions set out in the plan to be monitored periodically. In FY2008, the Board discussed the first two implementation plans, which were developed for two IEO evaluations completed in FY2007: "The IMF and Aid to Sub-Saharan Africa," which was also discussed by the Board in FY2007, and "The IMF's Advice on Exchange Rate Policy," which was discussed early in FY2008 (see Chapter 3). Since not enough time had elapsed since these two implementation plans had been developed, the first periodic monitoring report, which was discussed by the Board in January 2008, covered earlier IEO recommendations that had been endorsed by the Board before the establishment of implementation plans. Executive Directors agreed that IEO recommendations have had a substantial impact on how the Fund operates, and that lessons have generally been absorbed and recommendations substantially implemented. They considered that, in the future, monitoring would benefit from greater specificity and clarity about the follow-up actions required and that periodic monitoring reports should not be produced until sufficient time—say, six months—had elapsed following Board discussion of management's implementation plan. The Board reiterated that it was the responsibility of management and staff to prepare future monitoring reports, with periodic Board review, and reaffirmed that policy development, review, and implementation, including of Board-endorsed IEO recommendations, remained the responsibility of the Executive Board and management.[86]

During FY2008, the IEO also completed an evaluation of structural conditionality in IMF-supported programs, which the Executive Board discussed in December 2007 (see Chapter 4), and one of IMF corporate governance, including the role of the Executive Board,[87] and a draft issues paper on the IMF's approach to trade policy issues was posted on the IEO's Web site for public comment. In FY2009, the IEO will continue to work on an evaluation of the IMF's interactions with member countries and begin an evaluation of the IMF's research agenda. More information on the activities and reports of the IEO can be found on its Web site.[88]

### Risk management

Since 2006, the IMF has had in place a comprehensive risk-management framework, which is overseen by the Executive Board. The Advisory Committee on Risk Management (ACRM)—which is chaired by one of the Fund's Deputy Managing Directors and composed of six senior IMF staff members—supports the risk-management framework, meets regularly to discuss risk-management issues, and briefs management and the Executive Board on its work. The centerpiece of the ACRM's work is the *Annual Risk Management Report*, which synthesizes the results of a comprehensive risk-assessment exercise covering strategic, core mission, financial, and operational risks.[89] During FY2008 further steps were taken to strengthen the modalities of the risk-assessment framework used.[90] The ACRM also played an important role in monitoring risks associated with the IMF's refocusing efforts.

### IMF audit mechanisms

The IMF's audit mechanisms consist of an external audit firm, an internal audit function, and an independent External Audit Committee (EAC) that oversees the work of both.

The external audit firm, which is selected by the Executive Board in consultation with the EAC and

85 See "IMF Releases Third Annual Report on the Implementation of the Transparency Policy," PR 08/18, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pr/2008/pr0818.htm. The report, "Key Trends in the Implementation of the Fund's Transparency Policy," can be found on the IMF's Web site, at www.imf.org/external/np/pp/eng/2008/013108.pdf.

86 See "Implementation Plan Following IEO Evaluation of the IMF and Aid to Sub-Saharan Africa," PIN 07/93; "IMF Executive Board Discusses Implementation Plan Following IEO Evaluation of the IMF's Exchange Rate Policy Advice, 1999–2005," PIN 07/119; and "First Periodic Monitoring Report on the Status of Board-Endorsed Recommendations of the Independent Evaluation Office," PIN 08/25, on the CD-ROM or on the IMF's Web site, at www.imf.org/external/np/sec/pn/2007/pn0793.htm, www.imf.org/external/np/sec/pn/2007/pn07119.htm, and www.imf.org/external/np/sec/pn/2008/pn0825.htm, respectively. The periodic monitoring report itself, which was produced in December 2007, is available on the IMF's Web site, at www.imf.org/external/np/pp/2007/eng/120307.pdf.

87 The Board discussed the evaluation of corporate governance as well as the implementation plan for the Board-endorsed recommendations in the evaluation of structural conditionality in early FY2009.

88 See www.ieo-imf.org.

89 The IMF's safeguards assessments policy mitigates the risk that loans made to member countries will be misused (see CD-Box 5.2 on the CD-ROM).

90 In June 2008, the Fund also launched an "integrity hotline"—a mechanism for enabling individuals inside and outside the Fund to raise concerns on a confidential basis about possible staff misconduct. The hotline is operated by an independent third party.

appointed by the Managing Director, is responsible for performing the annual external audit and expressing an opinion on the financial statements of the IMF, accounts administered under Article V, Section 2*(b)*, and the Staff Retirement Plan. At the conclusion of the annual audit, the EAC transmits the report issued by the external audit firm, through the Managing Director and the Executive Board, for consideration by the Board of Governors and briefs the Executive Board on the results of the audit. The external audit firm is normally appointed for five years. Deloitte & Touche LLP is currently the IMF's external audit firm.

The internal audit function is assigned to the Office of Internal Audit and Inspection (OIA), which independently examines the effectiveness of the risk-management, control, and governance processes of the IMF. The OIA also serves as the secretariat for the ACRM. The OIA conducts about 25 audits and reviews annually, which include financial audits, information technology audits, and operational and effectiveness audits. Financial audits examine the adequacy of controls and procedures to safeguard and administer the assets and financial accounts of the IMF. Information technology audits evaluate the adequacy of information technology management and the effectiveness of information security measures. Operational and effectiveness audits focus on processes and associated controls and the efficiency and effectiveness of operations and their alignment with the overall goals of the IMF. In line with best practices, the OIA reports to IMF management and to the EAC, thus ensuring its independence. In addition, the OIA briefs the Executive Board annually on its work program and the major findings and recommendations of its audits and reviews. The quality of the OIA's activities was assessed in early 2008 by an independent evaluation team of the Institute of Internal Auditors, which confirmed adherence to all applicable international standards.

The EAC is composed of three members selected by the Executive Board and appointed by the Managing Director, and oversees the IMF's accounting, financial reporting, internal control, and risk-management functions. The members serve three-year terms on a staggered basis and are independent of the IMF. EAC members are nationals of different IMF member countries and must possess the expertise and qualifications required to carry out the oversight of the annual audit. Typically, candidates for the EAC have significant experience in international public accounting firms, the public sector, or academia.

The EAC selects one of its members as chair, determines its own procedures, and is independent of the IMF's management in overseeing the annual audit. However, any changes to the EAC's terms of reference are subject to Executive Board approval. The EAC typically meets in person in January, in June after the completion of the audit, and in July to report to the Executive Board. IMF staff and the external auditors consult with EAC members throughout the year. The 2008 EAC members are Mr. Satoshi Itoh, former Professor, Chuo University, Japan; Mr. Steve Anderson, Head of Risk Assessment and Assurance, Reserve Bank of New Zealand; and Mr. Thomas O'Neill, corporate director and former Chairman, PricewaterhouseCoopers Consulting.