



**MINISTRY: FINANCE
REPUBLIC OF SOUTH AFRICA**

Private Bag X115, Pretoria, 0001, Tel: +27 12 323 8911 Fax: +27 12 323 3262
PO BOX 29, Cape Town, 8000, Tel +27 464 6100 Fax +27 21 461 2934

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Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington D.C, 20431
U.S.A

Dear

Dominique

REPORT OF THE COMMITTEE OF EMINENT PERSONS ON IMF GOVERNANCE REFORM

Thank you for the opportunity you gave me to chair the Committee of Eminent Persons on IMF Governance Reform. The Committee has completed the report you commissioned, which is attached, but by way of background, allow me to elaborate on our intent and on the recommendations we proposed.

Our objective from the outset was to come up with a broad package of reform measures that would help bring the Fund back to the centre of the world economy by enhancing its capacity to respond to the evolving needs of its membership through improvements in the Fund's institutional framework. The Fund's ability to relate effectively to many of the countries that need its help – whether temporary or otherwise – needs work. In large part that is because the relationship between the Fund and its membership, as reflected in the Fund's governance structure, has not kept pace with changes to the distribution of economic activity in the world economy. Ultimately, the IMF's ability to act in the global interest will hinge on a governance structure that is adaptable, commensurate with the weight of emerging market countries in the global economy, and gives those states that utilise IMF services, particularly low-income countries a meaningful voice in its decision-making bodies.

To achieve this, we recommend the following measures:

- (i) **The activation of a Council:** The advisory IMFC should be converted into a ministerial-level Council with decision-making authority, as provided for in the Articles of Agreement. The Council would take strategic decisions: those relating to systemic stability, early warning/diagnosis, new lending facilities, and the selection of the Managing Director.
- (ii) **Strengthening the Executive Board to provide the kind of oversight a large multilateral organisation needs:** The Executive Board would retain executive authority over lending and the medium-term budget framework, but would play a more active role in reviewing policy effectiveness, assessing the performance of management and providing advice to both management and the Council.
- (iii) **A rebalancing of quota shares and adjustments to the size and composition of the Board to strengthen representation at the Fund:** Rebalancing quota shares is central to political legitimacy. Although a process for raising and rebalancing shares was set in motion in October 2007, it is much too gradual. The next quota review should be brought forward to 2010. Steps should also be taken to reform the size and composition of the Board, by doing away with the current system of reserving 5 chairs for the largest quota holders and electing chairs instead. This would facilitate consolidation of European member countries and help achieve a better balance between advanced and emerging market/developing countries.
- (iv) **A review of the Fund's decision-making rules:** Consideration should be given to lowering the voting threshold on critical decisions from 85 percent to 70-75 percent, and extending double majorities to a wider range of decisions, thus ensuring that decisions affecting key aspects of the institution command the support of the majority of members.
- (v) **Introducing changes to the recruitment and mandate of management and staff:** The MD must be selected and appointed in an open, transparent and merit-based manner, regardless of nationality, and the training and recruitment of staff should reflect a more diverse set of skills and capabilities to improve the long-run effectiveness of the organisation. Outside of fiduciary/financing decisions that remain with the Board, other work of the institution – notably the conduct of surveillance under Article IV – should be devolved to management.

In addition to these recommendations, we thought it important in the current economic climate to include two other proposals in the report, namely:

- (vi) **Updating the Fund's legal mandate to ensure consistency with its evolving role:** While the Fund is mandated to exercise firm surveillance over exchange rates, addressing this crisis and future ones will necessitate that the Fund's mandate extend to financial sector issues and to the capital account. The Fund also needs to be given a more robust role in ensuring that countries wishing to make changes to their policies do so within a multilateral framework and in a manner that takes into account

domestic macroeconomic and financial stability. In this respect, its role will complement that of the FSF, which will continue to perform the critical task of developing regulatory standards for financial institutions.

- (vii) **And finally, increasing the Fund's resources to address the current and future crises:** Pending a quota increase, the Fund's lending capacity could be raised by bilateral lending or an equivalent expansion of General and New Agreements to Borrow. Temporary financing, however, will not provide a systemic solution for less developed countries, and given the growing demand, will not suffice in the long-term. We therefore recommend consideration be given to a substantial SDR allocation.

Implemented together, these measures will ensure the Fund is better able to respond to the challenges of economic and financial globalisation, and remains a credible and effective guardian of a stable, market-based international financial and monetary system. My appeal is that in implementing these recommendations the rationale underlying this reform exercise – improving the Fund's legitimacy and effectiveness through a *package* of measures – is not lost.

I hope this report will serve the purpose you had intended. Please thank your staff on my behalf for their assistance and cooperation in drafting the report.

Yours sincerely,



TREVOR A. MANUEL (MP)
MINISTER OF FINANCE

Date: *24 March 2009*