INTERNATIONAL MONETARY FUND

MARCH 2017

IMPLEMENTATION PLAN IN RESPONSE TO THE EXECUTIVE BOARD-ENDORSED RECOMMENDATIONS FOR THE IEO EVALUATION REPORT—THE IMF AND THE CRISES IN GREECE, IRELAND, AND PORTUGAL

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

March 16, 2017

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EXECUTIVE SUMMARY

This paper sets out Management's response to the Independent Evaluation Office's (IEO) report *The IMF and the Crises in Greece, Ireland, and Portugal* as part of the Management and staff follow-up to an IEO evaluation. The implementation plan proposes specific actions to address the recommendations endorsed by the Executive Board in its July 19, 2016 discussion. The implementation plan notes the Board's endorsement of the principles that the IMF's technical analysis should remain independent, that existing policies should be followed and should not be changed without careful deliberation, and that the Executive Board and Management should reaffirm their commitment to accountability and transparency, as well as the role of independent evaluation in fostering good governance. As to the IEO's specific recommendations supported by the Board, the implementation plan proposes actions to address the need for the Fund to clarify how guidelines on program design apply to currency union members, the need for the Fund to establish a policy on cooperation with regional financing arrangements, and the need to further strengthen Fund cooperation with the IEO, including on modalities of interactions between the IEO and Fund staff and the IEO's access to information.

The implementation of some of the proposed actions is already underway and some actions have been included in the Fall 2016 Work Program. The paper also explains how implementation will be monitored by the Executive Board.

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CONTENTS

INTRODUCTION

1. This paper lays out a forward-looking management implementation plan (MIP) for the IEO evaluation "The IMF and the Crises in Greece, Ireland, and Portugal." During the Board discussion of the report, Executive Directors welcomed the report and underscored the importance of the IEO's role in enhancing the learning culture within the Fund, strengthening the Fund's external credibility, and supporting the Executive Board's oversight responsibilities. Directors broadly shared the general thrust of the IEO's main findings and broadly endorsed its recommendations, with some caveats. Directors and Management recognized that the Fund needs to learn from the experience of the three Euro area crisis programs, and vital lessons learnt can aspire the Fund to do better in avoiding and managing future crises. At the same time, Directors noted the circumstances prevailing at the time were difficult and unprecedented, and uncertainty and fear of contagion were acute. Assessing the Fund's performance in this broader context, they considered that the Fund-supported programs had succeeded in buying time to build European firewalls, preventing the crisis from spreading, and restoring growth and market access in Ireland and Portugal. They observed that the political economy of the Greek crisis was unique and complex. Directors generally viewed the unprecedented Troika arrangement as efficient overall, noting in particular how the Fund's engagement had evolved over time. Nevertheless, the need to coordinate and reach common ground with the European partners might have affected the Fund's agility as a crisis manager, and gave rise to criticism that its decision-making process lacked transparency. This implementation plan proposes a range of actions to address the recommendations of the evaluation.

IEO RECOMMENDATIONS, BOARD REACTIONS, AND IMPLEMENTATION PLAN

2. The IEO report made five main recommendations, aimed at improving the Fund's governance and operational effectiveness in the context of the Fund's experience with lending to Euro area members. This section lays out each of these recommendations, along with Executive Directors' reactions, the specific actions to address those recommendations that were endorsed by the Board, and how these will be monitored. The effectiveness and scope of these actions will continue to be reviewed and adjusted as and when warranted.[1]

3. The principle underlying the IEO's first recommendation that the IMF's technical analysis should remain independent was supported, and several initiatives are underway to further improve the analytical underpinnings of surveillance and program design.

[1] Annex I summarizes the evaluation's recommendations, Directors' responses, proposed measures, timelines, and responsibilities for implementation. The implementation of this plan will be monitored through forthcoming Periodic Monitoring Reports (PMRs).

IEO Recommendation 1: *The Executive Board and Management should develop procedures to minimize the room for political intervention in the IMF's technical analysis.*

- *Board Reactions:* Directors broadly agreed with the principle underlying recommendation 1 that the IMF's technical analysis should remain independent. They noted that procedures currently in place have been strengthened substantially in recent years in the direction recommended by the IEO.[2] That notwithstanding, they recognized that there remains scope for further improving the analytical underpinnings of both surveillance and program design, especially in the areas of economic forecasts, external sector assessment, and integrated surveillance.[3]

- *Implementation Plan: Continuous improvements in the analytical underpinnings of both surveillance and program design.* The analytical underpinnings of both surveillance and program design are continuously being improved as part of ongoing upgrades in the quality of the Fund's analysis. Importantly, the 2014 Triennial Surveillance Review made several specific recommendations to strengthen the quality of surveillance, and in this context, staff will prepare an interim assessment for the 2019 Comprehensive Surveillance Review by the end of 2017 to update the Board on the status of this agenda. Meanwhile, several initiatives are already underway. For instance, since the Board meeting, in the area of economic forecasting, the Institute for Capacity Development (ICD) has launched internal staff training as part of the staff Structured Curriculum on "Macroeconomic Forecasting" along with other courses and seminars geared to enhancing staff's econometric toolkit. Moreover, ICD will further organize workshops for area departments in collaboration with the Research Department (RES), Risk Management Unit (RMU), and the Strategy, Policy, and Review Department (SPR), to share best practices and techniques in forecasting in early FY2018. RES is developing a tool for country teams and reviewers to strengthen monitoring of growth forecast errors by April 2017; a tool to check the sensitivity of staff's debt sustainability projections under alternative macroeconomic assumptions has been rolled out on a pilot basis by SPR. In the area of improving integrated surveillance, the number of Article IVs with enhanced macro-financial coverage has been expanded from 24 reports in 2015 to 67 in 2016, and 32 countries have been identified for operationalizing an enhanced focus on macro-structural issues in surveillance. In the area of external sector assessments, a recent methodological note on External Balance Assessment (EBA)-lite explains the extension and application of EBA approaches to a broader set of countries, while the annual External Sector Reports continue to be made more thematic. Moreover, the Fund's extensive internal review process, which involves staff members with a high level of expertise and regional diversity, provides quality and objectivity safeguards of the Fund's analysis.

[2] In particular, informal Board engagement has increased in depth and frequency.

[3] The Managing Director also did not accept the premise of political intervention, which, she noted, the IEO failed to establish in its report, but supported the principle that the IMF's technical analysis should remain independent.

4. The principle underlying the IEO's second recommendation that existing policies should be followed and not be changed without careful consideration by the Board was supported, but since Directors noted that adequate safeguards are currently in place, no further action is required.

IEO Recommendation 2: *The Executive Board and Management should strengthen the existing processes to ensure that agreed policies are followed and that they are not changed without careful deliberation.*

- *Board Reactions:* Directors supported the underlying principle that existing policies should be followed and that they should not be changed without careful deliberation by the Board. They noted that the systemic exemption to the exceptional access criteria, which had been introduced under extraordinary circumstances, should have been considered more carefully and transparently by the Board. They appreciated the Managing Director's commitment to handle similar circumstances better in the future and follow existing policies diligently. Most Directors considered that checks and balances are adequately in place.

- *Implementation Plan:* Most Directors considered that checks and balances are adequately in place and the Managing Director is committed to follow existing policies diligently. In that light, no further action is required.

5. The IEO's third recommendation on clarifying program design in currency union members was supported by the Board, and a Board paper on this issue will be prepared.

IEO Recommendation 3: *The IMF should clarify how guidelines on program design apply to currency union members.*

- *Board Reactions:* Directors supported the need to clarify how guidelines on program design apply to currency union members, taking into account the need to ensure evenhandedness as well as the heterogeneity across different currency unions. Directors had differing views on the modalities for setting conditionality at union-level institutions, while still others stressed that evenhanded surveillance across the membership would help dispel the perception that euro area countries are treated differently at the Fund.

- *Implementation Plan:* Staff will engage the Board on program design in currency union members in June 2017, in line with the Fall 2016 Work Program. The paper will review the Fund's approach to setting conditionality with currency union members, with the aim of soliciting Board views on establishing clear guidance and principles designing Fund-supported programs for currency union members.

6. The IEO's fourth recommendation on establishing a policy on cooperating with regional financing arrangements (RFAs) also received Board support, and a Board paper on this issue will be prepared.

IEO Recommendation 4*: The IMF should establish a policy on cooperation with regional financing arrangements.*

- *Board Reactions:* Directors supported the need to establish a policy on cooperation with regional financing arrangements (RFAs), emphasizing the need to maintain flexibility, given the different mandates, policies, and institutional arrangements of RFAs.

- *Implementation Plan*: A Board paper on "IMF's Cooperation with Regional Financing Arrangements," will be prepared by May 2017 for Board engagement, in line with the Work Program. The paper will clarify Fund cooperation with RFAs with the aim of better facilitating such cooperation and thereby strengthening the Global Financial Safety Net (GFSN). Building on a 2013 Board paper discussed in an informal Board meeting— "Stocktaking the Fund's Engagement with Regional Financing Arrangements"—and G-20 conclusions, it will establish for the Board's feedback and guidance general principles of engagement, including in areas related to surveillance, capacity building, and program involvement (design, financing, and monitoring), with RFAs and their members. The paper will elaborate on procedural issues between the Fund and RFAs that can be applied in an evenhanded and transparent way, while taking into account the region-specific differences and the unique characteristics of specific RFAs.

7. The IEO's fifth recommendation on the Executive Board and Management committing to accountability, transparency, and the role of the IEO in fostering good governance was affirmed by the Board and Management, and specific actions, including an IEO/Fund staff protocol, are proposed for follow-up.

IEO Recommendation 5: *The Executive Board and Management should reaffirm their commitment to accountability and transparency and the role of independent evaluation in fostering good governance.* In elaborating on this recommendation, the IEO report made specific suggestions, including that the Board should establish or reaffirm clear guidelines on how to keep records of the process by which important program-related decisions are made at the staff and Management level; on the preparation and retention of the records of informal Board meetings; on the IEO's access to confidential documents when there is ongoing sensitivity and with what time lags such documents should be made available; and on the modality of interactions between the IEO and IMF staff.

- *Board Reactions*: Directors supported that the Executive Board and Management should reaffirm their commitment to accountability and transparency, as well as the role of independent evaluation in fostering good governance. Directors underscored their strong support for independent evaluation and the IEO's critical role in the Fund. In this context, they noted with concern the difficulty that the IEO had experienced in obtaining confidential documents that it deemed necessary for conducting the evaluation in a timely manner. They therefore appreciated the IEO's specific suggestions under this recommendation to further strengthen Fund cooperation with the IEO, including with regard to the modality of interactions between the IEO and Fund staff and the IEO's access to information, and welcomed the Managing Director's strong commitment to ensure smooth collaboration

between the IEO and the Fund, especially the Managing Director's proposal to develop an IEO/Fund staff protocol. They also underscored the importance of timely preparation of Ex-Post Evaluation for all exceptional access arrangements.

- *Implementation Plan*: The implementation includes several initiatives:

  - *Re-affirmed commitment*. In the Chair's summing up and in her statement to the Board, the Board and the Managing Director respectively re-affirmed that the Board, Management, and staff have been, and will continue to be, committed to accountability, transparency, and the role of the IEO.

  - *Record keeping*. Staff will remain guided by the existing processes in place which aim at proper record keeping on program-related documents as well as actions taken/decisions made at the staff and Management level. At the level of the Board, in previous meetings of the Agenda and Procedures Committee (APC) and the Evaluation Committee (EVC), Directors agreed that, based on the existing framework for information sharing with the IEO, records of informal Board sessions, including transcripts, could be shared with the IEO, noting the need to treat the confidential nature of this material accordingly. Procedures for preparing and retaining transcripts of informal Board sessions, and the issue of access to the transcripts, were discussed by the Agenda and Procedures Committee of the Executive Board (APC) in early 2017 (EB/APC/Mtg/17/1). The newly agreed procedures by the Board will be reflected in the Compendium of Executive Board Work Procedures.

  - *An IEO/Fund staff protocol*. An IEO/Fund staff cooperation protocol is being developed jointly by SPR and LEG staffs and the IEO, in line with the existing rules, policies, and procedures governing the sharing of confidential information between staff and the IEO, and will be issued by early 2017 as an operational guidance to staff on cooperation with the IEO. It will clarify the importance of staff's cooperation and the principle of open communication, the relevant protocols on information requests from the IEO and sharing of information by staff, and the confidentiality of shared information. The protocol will be issued to the Executive Board for information.

RESOURCE IMPLICATIONS

8. The initiatives outlined above would have some resource costs. The large majority of the deliverables underlying these recommendations can be accommodated without significant new resource implications, including because several of these deliverables have been or are being acted upon already. However, costs associated with the preparation and retention of transcripts of informal Board meetings will require additional recurrent staff resources. Specifically:

- Recommendation 1 to develop procedures to minimize the room for political intervention was not supported by the Board, although there was broad support for the underlying principle that the IMF's technical advice should remain independent and that there remains

room to improve the analytical underpinnings of both surveillance and program design. The latter is made part of several ongoing initiatives, with resource implications that can be addressed within the currently planned allocations.

- Recommendation 2 to strengthen existing processes to ensure that agreed policies are followed and are not changed without careful deliberation by the Board requires no additional action as adequate safeguards for this are in place and, hence, has no resources implications.

- Recommendation 3 to clarify guidelines on program design in currency unions will require 1.5 Full Time Equivalents (FTE) to produce a Board paper as a one-off cost. As this action item has already been included in the Fall 2016 Work Program, it has no additional resource implications.

- Recommendation 4 to establish a policy on cooperation with regional financing arrangements will be accommodated with 1.5 FTE to produce a Board paper as a one-off cost. As this action item has already been included in the Fall 2016 Work Program, there are no additional resource implications.

- Recommendation 5 on reaffirming commitment to accountability and transparency and the role of independent evaluation in fostering good governance requires no specific action beyond the reaffirmation of their commitment to this already granted by Management and the Board. However, the implementation of the suggestions under this recommendation to further strengthen Fund cooperation with the IEO (including with regard to the modality of interactions between the IEO and Fund staff and the IEO's access to information) will require small one-off costs to develop the IEO protocol that will be met through reallocating existing resources; costs associated with the preparation and retention of transcripts of informal Board meetings would require additional recurrent staff resources of 1 FTE. Resource costs of the proposed actions will need to be included in the FY2018–20 Medium-term Budget.

Annex I. IEO Evaluation of The IMF and the Crises in Greece, Ireland, and Portugal: Recommendations, Board Response, and Proposed Follow-Up

IEO Recommendation	Executive Directors' Responses	Follow-Up Plan and Timeline	Accountability
1. The Executive Board and Management should develop procedures to minimize the room for political intervention in the IMF's technical analysis.	Directors broadly agreed with the underlying principle that the IMF's technical analysis should remain independent. They noted that procedures currently in place have been strengthened substantially in recent years in the direction recommended by the IEO. That notwithstanding, they recognized that there remains scope for further improvements on the analytical underpinnings of both surveillance and program design.	Ongoing improvements on the analytical underpinnings of both surveillance and program design, especially in the areas of economic forecast, external sector assessments, and integrated surveillance, as part of regular processes to continuously improve the technical analysis at the Fund.	All departments
2. The Executive Board and Management should strengthen the existing processes to ensure that agreed policies are followed and that they are not changed without careful deliberation.	Directors supported the underlying principle that existing policies should be followed and that they should not be changed without careful deliberation by the Board. They noted that the systemic exemption to the exceptional access criteria, which had been introduced under extraordinary circumstances, should have been considered more carefully and transparently by the Board.	No further action required.	n.a.
3. The IMF should clarify how guidelines on program design apply to currency union members.	Directors supported this recommendation. They emphasized that, while such guidelines would help ensure evenhandedness across the membership, it will be important to take due account of heterogeneity across different currency unions.	A Board paper on program design for currency union members to be completed by June 2017.	SPR and LEG

IEO Recommendation	Executive Directors' Responses	Follow-Up Plan and Timeline	Accountability
4. The IMF should establish a policy on cooperation with regional financing arrangements.	Directors supported this recommendation. In doing so, they emphasized the need to maintain flexibility, given the different mandates, policies, and institutional arrangements of RFAs.	A Board paper on "IMF's Cooperation with Regional Financing Arrangements" to be completed by May 2017.	SPR
5. The Executive Board and Management should reaffirm their commitment to accountability and transparency and the role of independent evaluation in fostering good governance.	Directors agreed with this recommendation. Directors underscored their strong support for the independent evaluation and the IEO's critical role in the Fund. They noted with concern the difficulty that the IEO had experienced in obtaining confidential documents that it deemed necessary for conducting the evaluation in a timely manner. They therefore appreciated the IEO's specific suggestions under this recommendation to further strengthen Fund cooperation with the IEO, including with regard to the modality of interactions between the IEO and Fund staff and the IEO's access to information. Directors welcomed the Managing Director's strong commitment to ensure smooth collaboration between the IEO and the Fund, and to consider an IEO/Fund staff protocol.	• Staff and Management will continue to follow established procedures to ensure proper record keeping on program-related documents and actions taken/decisions made. • The APC discussed in early 2017 (EB/APC/Mtg/17/1) to retain the transcripts of informal Board meetings indefinitely. SEC agreed to explore ways to make these transcripts available to Directors in an expeditious and secure manner, and to reflect newly agreed procedures in the Board Compendium. • Develop IEO/Fund staff cooperation protocol by early 2017.	• All departments • SEC • SPR and LEG

Annex II. Resource Implications of the Management Implementation Plan

IEO Recommendation	One-off Resources		Recurring Resources
	Description	Cost	Cost
1. The Executive Board and management should develop procedures to minimize the room for political intervention in the IMF's technical analysis.	Ongoing improvements	..	Allocated
2. The Executive Board and management should strengthen the existing processes to ensure that agreed policies are followed and that they are not changed without careful deliberation.	-	-	-
3. The IMF should clarify how guidelines on program design apply to currency union members.	Board paper	1.5 FTE	..
4. The IMF should establish a policy on cooperation with regional financing arrangements.	Board paper	1.5 FTE	..
5. The Executive Board and management should reaffirm their commitment to accountability and transparency and the role of independent evaluation in fostering good governance.	IEO protocol Record keeping	0.1 FTE ..	.. 1 FTE
Total		**3.1 FTE**	**1 FTE**