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## HIGH LEVEL STATUS REPORT TO THE IEO EVALUATION OF FUND'S RECURRING ISSUES

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**International Monetary Fund  
Washington, D.C.**



## HIGH LEVEL STATUS REPORT TO THE IEO EVALUATION OF FUND'S RECURRING ISSUES

March 27, 2017

### EXECUTIVE SUMMARY

**This is a high-level report on progress in addressing recurring issues identified by the Independent Evaluation Office (IEO).** The Board endorsed the proposal in the *Chairman's Summing Up for the Independent Evaluation Office Report on Recurring Issues from a Decade of Evaluation – Lessons for the IMF* (BUFF/14/58, 6/11/14) that staff prepare a separate high-level report on the status of initiatives that address the recurring issues identified by the IEO, noting that the first staff report could be prepared within two years, followed by similar reports every five years thereafter. The September 2015 *Management Implementation Plan* set out the actions management would take to follow-up on the Board-endorsed recommendation. The IEO's 2014 evaluation of *Recurring Issues from a Decade of Evaluation: Lessons for the IMF* identified five recurring issues: a) Executive Board guidance and oversight; b) Organizational silos; c) Attention to risks and uncertainty; d) Country and institutional context; and e) Evenhandedness. This high-level report provides a broad account of actions taken to address these recurring issues since the publication of the 2014 IEO report; it is not intended as an exhaustive account of initiatives undertaken.

**Takeaways.** The report concludes that the Fund has made progress in addressing the recurring issues identified by the IEO, and acknowledges the need for taking actions on an ongoing basis to achieve the related objectives. The discussion of the Management Implementation Plan (MIP) left open the question of whether subsequent reports should be prepared, perhaps every five years. The Evaluation Committee concluded that the forthcoming external evaluation of the IEO could look at the monitoring mechanisms more holistically, to provide further input into considering whether or not to continue the preparation every five years of this high-level report.

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## Acronyms and Abbreviations

EMDCs	Emerging Market and Developing Countries
FAD	Fiscal Affairs Department
FRC	Fund Risk Committee
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
GFS	Government Finance Statistics
G-RAM	Global Risk Assessment Matrix
HRD	Human Resources Development
ICD	Institute for Capacity Development
IEO	Independent Evaluation Office
IET	Internal Economics Training
IMF	International Monetary Fund
LEG	Legal Department
LICs	Low-Income Countries
MCM	Monetary and Capital Markets
MIP	Management Implementation Plan
PPM	Post Program Monitoring
PRGT	Poverty Reduction and Growth Trust
RAM	Risk Assessment Matrix
RES	Research Department
RMU	Risk Management Unit
SDN	Staff Discussion Note
TA	Technical Assistance
VE	Vulnerability Exercise
WEO	World Economic Outlook

## INTRODUCTION

**1. This high-level report documents the progress made since 2014 in addressing the five recurring issues highlighted by the Independent Evaluation Office (IEO).** The *Management Implementation Plan (MIP) in Response to the Board-Endorsed Recommendations for the IEO Evaluation of Recurring Issues from a Decade of Evaluation: Lessons for the IMF* called for the preparation of a high-level status report in the Summer of 2016. The five recurring issues are: (1) Executive Board Guidance and Oversight; (2) Organizational Silos; (3) Attention to Risks and Uncertainty; (4) Country and Institutional Context; and (5) Evenhandedness. Given its high-level nature, this report does not intend to provide a complete account of all the initiatives introduced by staff since the publication of the IEO Evaluation.

**2. The Fund continuously addresses issues that are intrinsic to the nature of its work and governance structure with approaches that evolve over time.** Moreover, the actions to achieve the related objectives are likely to constitute work in progress for an extended period of time, and the evaluation of the outcomes will need to continue to be monitored by a number of existing periodic reports.

**3. This report thus draws heavily from existing documents.** These include the *2015 Seventh Periodic Monitoring Report on the Status of Implementation Plans in Response to Board-Endorsed IEO Recommendations*, which evaluated the progress made in achieving the objectives in three of the five recurring issues identified by the IEO report (specifically, attention to risks and uncertainty, organizational silos, and evenhandedness); the *2014 Triennial Surveillance Review—Managing Director's Action Plan for Strengthening Surveillance; Initial Steps in Implementing the Managing Director's Action Plan for the 2014 Triennial Surveillance Review*; and *The Managing Director's Global Policy Agenda*.

**4. The MIP for this IEO report noted that Management will consult with the members of the Evaluation Committee on the merits of continuing the preparation of high-level reports, taking into account associated costs and the mechanisms already in place to keep the Board informed on developments in recurring issues.** It considered whether such high-level reports should be prepared every five years. The Evaluation Committee concluded that the forthcoming external evaluation of the IEO could look at the monitoring mechanisms more holistically, to provide further input into considering whether or not to continue the preparation every five years of this high-level report.

## PROGRESS IN ADDRESSING THE RECURRING ISSUES IDENTIFIED BY THE 2014 IEO EVALUATION

### A. Executive Board Guidance and Oversight

**IEO Findings.** *A recurring weakness is the lack of clear guidance by the Executive Board—for example, with respect to certain lending policies and the Fund's policy advice on trade and capital account issues. Other IEO findings relate to the role of the Executive Board in its oversight function, and the IMF's overall governance structure. The IEO highlights that the lack of clear guidance and oversight by the Board is ultimately related to the governance of the IMF.*

- 5. The Fund continuously makes efforts to address IEO recommendations related to governance issues and Executive Board guidance and oversight.** The modernization of Fund governance continues following the effectiveness of the 14<sup>th</sup> General Review of Quotas earlier this year. Innovations have been introduced in Board procedures and practices. Examples of recent improvements in terms of Board guidance include a number of surveillance and lending policies.
- 6. Significant progress was made in addressing governance reforms.** The effectiveness of the quota increases under the 14<sup>th</sup> General Review of Quotas and the entry into force of the Board Reform Amendment reinforce the credibility, effectiveness, and legitimacy of the IMF. The implementation of these reforms constituted a major step toward better reflecting the increasing role of dynamic emerging market and developing countries (EMDCs) in the institution's governance structure. The modernization of Fund governance continues as part of the 15<sup>th</sup> General Review of Quotas. To provide adequate time to build the necessary broad consensus, the timetable was reset for completing the review by the Spring Meetings of 2019 and no later than the Annual Meetings of 2019.
- 7. The Board's involvement in laying out strategic priorities has been strengthened.** Before the Managing Director proposes a work program for the Board and IMFC members' guidance on strategic priorities, Executive Directors help shape the Fund's policy agenda by providing input as part of their engagement with staff on the Managing Director's Global Policy Agenda.
- 8. Other steps have been taken to strengthen procedures to support Executive Board guidance and oversight.** The Secretary's Department issued a revised and updated *Compendium of Executive Board Work Procedures* in October 2015 which describes the main policies, practices, and procedures that relate to the workings of the Executive Board. This Compendium serves as a reference guide for staff who participate in Board meetings to ensure that they follow the expected guidelines. Guidelines include minimum circulation periods for all Board documents to ensure that the Board has enough time to prepare for the meeting in question. Documents for formal country Board meetings are still required to meet a minimum

circulation period of two weeks. In response to a request by Executive Directors to lengthen the circulation period for policy papers, a four-week circulation period was implemented in June 2014 for policy and key administrative papers to be considered in formal Board meetings. The reforms in Board procedures (e.g., circulating main themes from Grays) and the push for more items to be considered on a lapse-of-time-basis have made Board meetings more focused and productive, and allowed the Board to concentrate its time on the more strategic areas of work. The Board is also now more involved in strategic decisions—for instance, they have ongoing engagement on budget issues.

**9. Moreover, early engagement on policy issues can help enhance the Board's guidance in policy development.** Early engagement on policy items in informal meetings is meant to strengthen the engagement with the Board and to receive early guidance. As part of this effort, the presentation of Staff Discussion Notes (SDNs) on new issues in informal Board sessions has become standard practice since early 2016.

**10. With regard to the specific areas identified by the IEO for enhanced Board guidance,** the Board discussed in 2015 a comprehensive review of the role of trade in the work of the Fund, including ways to integrate and operationalize the implications of the changing global trade landscape. In its 2015 evaluation of the IMF's Approach to Capital Account Liberalization, the IEO noted that the Fund's institutional view was a significant step in providing staff with a framework for advice on capital flow issues. Staff have also conducted a review of the experience with the institutional view on capital flows, which will be discussed by the Board in December 2016.

**11. The reform of lending frameworks and the work on sovereign debt are good examples for more effective guidance with respect to lending policies.** In the past two years, the Board has approved significant reforms to the exceptional access lending framework, including the removal of the systemic exemption, and to the Fund's policy on arrears to official creditors, which provides stronger incentives for collective action among official bilateral creditors. The reform of the policy on public debt limits in Fund-supported programs is another step towards recognizing the changing nature of the global lending landscape. In addition, the creation of the Catastrophe Containment and Relief Trust and the 50 percent increase in PRGT access norms and limits have enhanced the Fund's ability to provide assistance for external shocks from natural disaster and fast-spreading epidemics.

## B. Organizational Silos

**IEO Findings.** *The Fund has in some instances not adequately integrated work done by different parts of the IMF. The IEO recognized that silos are a feature of any complex organization, but that they can lead to weak analysis. Some outstanding issues include the need to better integrate TA delivery with surveillance and program work, macroeconomic with financial work, and multilateral and bilateral surveillance.*

**12. The Fund is working to improve both its staff's behavioral competencies as well as institutional processes.** Staff acknowledges the need for strong cooperation across departments and different parts of the institution, and notably to better integrate bilateral and multilateral surveillance, as well as surveillance and capacity development. To this end, the Fund has made efforts to develop staff's behavioral competencies, improve its organizational processes, and change its institutional culture.

**13. To promote behavioral changes at the staff level, the leadership development framework emphasizes an environment that empowers and fosters teamwork across the organization.** The framework clarifies the roles, responsibilities, and behavioral competencies for managers in the Fund. It promotes a more open organizational culture that encourages staff to speak their mind and share their ideas, and one where managers focus on developing people and continuously improving the performance of the organization. To effectively develop staff, managers have to delegate responsibility, nurture innovation and risk-taking, and coach and mentor staff. The leadership development framework was generated through an inclusive process that took place between 2012 and 2014, and included intensive work to develop departmental leadership teams. The leadership development framework is also meant to lead to changes in processes conducive to organizational improvements and performance.

**14. Several other initiatives have been undertaken that help improve institutional processes and break down organizational silos.** For example, the multilateral surveillance products are being better integrated and messages are aligned across, including the Global Policy Agenda. Moreover, substantial efforts have been made and progress has been achieved in recent years in integrating multilateral and bilateral surveillance, including through increasing collaboration and effectiveness of the review process; linking the G-RAM and country RAMs; encouraging cooperation and a free exchange of ideas through the creation of a number of interdepartmental groups and task forces; producing new reports that seek to better integrate multilateral, regional, and bilateral perspectives (such as the annual External Sector Reports); circulating early drafts of the WEO, the GFSR, and the Fiscal Monitor for interdepartmental review; and facilitating staff mobility. Recent initiatives to encourage cross-country work are envisaged in the *Managing Director's Action Plan for Strengthening Surveillance*. In addition, the Surveillance Committee was revamped and the number of papers co-prepared by different departments continue to grow. A new SharePoint based tool tracks research projects across departments, promoting collaboration and reducing duplication.

**15. ICD and HRD strengthened the Fund's learning environment, to help make the institution more responsive to its changing needs.** ICD created a dedicated Internal Economics Training (IET) Unit in 2014. In consultation with other departments, IET developed a Structured Curriculum for Fund staff with courses in the areas of empirical methods, external sector assessment, fiscal, macro-financial, macro-surveillance, monetary, and statistics.

**16. Efforts have also been undertaken to better exploit synergies between capacity development and surveillance, which also helps break down silos.** The 2014 TSR noted that a closer coordination of surveillance with Fund technical assistance would improve the traction of



Fund advice. Following that, and as noted in the April 2016 Managing Director's Global Policy Agenda, the synergies between capacity development and surveillance have been strengthened in several areas, including revenue mobilization, GFS standards on reporting, data-gathering, inclusive growth, energy subsidy reform, social safety nets and Islamic finance.

**17. STA and FAD have taken steps to be more closely integrated with surveillance.** STA created the Strategy, Standards, and Review Division in 2015 to facilitate the integration of STA's data, methodological, and capacity development activities with Fund surveillance. This division promotes, develops, and implements the Data Standards Initiatives and Data Provision to the Fund for surveillance purposes within and outside the institution. It is also the focal division for the coordination of STA's activities with area and other functional departments. The long-term strategy for data and statistics that is currently being developed by an interdepartmental taskforce following the IEO recommendation on "Behind the Scenes with data at the IMF" will, inter alia, integrate Fund-wide work streams on data provision by member countries, international statistical standards, capacity development, and data management with a common institutional objective. Meanwhile, FAD's recent efforts include the launch of "how-to notes", which provide policy-relevant and practical advice to country teams, as well as the establishment of the Fiscal Analysis Support Team (FAST) that provides easier access to FAD databases and information.

**18. Functional departments have intensified the support to country teams on macro-financial issues, including through the review process and as part of the initiative to mainstream macro-financial analysis in Article IV surveillance.** Tools have been developed to assist country teams. For example, RES developed a desktop toolkit to check consistency between real sector and financial sector forecasts; MCM has revamped its financial toolbox, including tools to assess changes in the macro-financial environment and measure the resilience of the financial sector; STA is working with teams to generate data sets to perform balance sheet analysis to explore links between the financial sector and other sectors; and ICD launched a five-module course, as part of the Structured Curriculum, on key macro-financial topics. In late 2014, management launched an initiative to integrate macro-financial analysis more consistently in Article IVs. To this end, departments identified 24 Article IVs in 2015 which would have enhanced macro-financial coverage, rising to 67 reports in 2016. Collaboration between SPR, MCM and country teams in brainstorming the topics covered, provision of tools to teams, and the review of staff reports are integral part of the macro-financial initiative. In addition, the Board will discuss next Spring the *Approaches to Macroeconomic Surveillance* Board paper.

**19. Following one of the 2014 TSR recommendations, the 2015 Guidance Note for Surveillance under Article IV Consultations encourages staff to draw on cross-country experiences.** The recent introduction of the Common Surveillance Database, a central repository of data used for the Fund's bilateral and multilateral surveillance, will help facilitate the use of cross-country analysis in surveillance. SPR is also undertaking a regular thematic review of Article IV staff reports and has identified and disseminated good practices with departments. The

evidence from this review so far suggests that country teams are using cross-country analysis, for example, to support their discussion of structural reforms.

**20. Management endorsed the Knowledge Management Working Group's recommendation on strengthening the knowledge-sharing culture.** A knowledge management strategy and program to help design, coordinate, and communicate the Fund's knowledge-sharing activities is being implemented, supported by a newly created knowledge management unit. These activities will allow for more effective sharing of cross-country policy experiences to strengthen policy advice in surveillance. In addition, interdepartmental advisory groups help support knowledge sharing among country teams, connecting teams to available resources and developing of Knowledge Exchange sites. These groups build on the expertise that already exists within the Fund and leverage the work, expertise and data from other institutions.

**21. Finally, the Fund's AIM approach encourages a more integrated and open organizational culture.** The Fall 2015 Global Policy Agenda introduced the priority to support the membership in a more agile, integrated, and member-focused manner (AIM). This priority will be reinforced by the HR strategy that is under development, which will be presented to the Board in March 2017. Some examples of key IMF activities reported in the April 2016 Managing Director's Global Policy Agenda include: 1) Agile: the broadening of knowledge on emerging issues such as migration, de-risking and the global trade slowdown; the deepening of analyses on structural reforms; 2) Integrated: taking an integrated approach to assessing transition spillovers to member countries; efforts to integrate emerging issues into surveillance; 3) Member-focused: the approval of the expansion of the SDR basket to include the renminbi; the scaling up of TA and training in low income countries.

## C. Attention to Risks and Uncertainty

**IEO Findings.** *The Fund has in some instances provided insufficient consideration or acknowledgement of risks and uncertainty. Past IEO reports have found lack of candor in staff reports and insufficient discussion of financial stability consequences of certain shocks.*

**22. The strategy of the Fund to manage risks and uncertainty has been multi-faceted.** First, the Risk Management Unit (RMU) created in 2014 analyzes emergent risks and vulnerabilities as they pertain to the internal business framework of the Fund. The RMU replaced the Advisory Committee on Risk Management which since 2006 had supported the implementation of a program to strengthen institutional risk management. Second, the Fund's work on long-term trends and uncertainties draws strategic implications and operational consequences for the institution under plausible and challenging future scenarios. Third, departments regularly update the institutional assessment of risks and uncertainties and develop new tools to better achieve the Fund's surveillance function for its member countries.

**23. The Risk Management Unit facilitates a common understanding of risk across the Fund.** The RMU has developed a full-fledged risk management framework that is tailored for the

Fund's unique business model. This includes a set of well-defined risk acceptance statements for each risk area spanning the Fund's core and cross-functional activities. Key risk indicators in each of the respective risk areas allow for effective measurement, mitigation, and management of risks in a strategic setting with greater clarity on ownership and roles. The RMU produces reports to assess the Fund's risk profile at regular intervals and, as needed, highlights areas where additional risk analysis or mitigation efforts need to be taken. The 2015 and 2016 Risk Reports were discussed by the Executive Board. In addition, the Fund Risk Committee (FRC) was established in 2016 as a crucial component of the Fund's risk governance framework. The FRC will ensure that the appropriate virtuous feed-back mechanisms between risk-assessment and mitigation are established.

**24. The RMU also fosters the development of tools to address emergent risk in all risk areas: strategic, core, cross-functional, and reputational.** Such tools include new risk methodologies and techniques to analyze and monitor risk. Building on existing indicators from the Vulnerability Exercise (VE), Risk Assessment Matrix (RAM), and Accountability Frameworks, the techniques include: (i) regular benchmarking against and engagement with peers, as well as external best practices; (ii) comprehensive portfolio analysis—including a well-tailored approach to assessing portfolio quality that fit the unique nature of the Fund's portfolio; and (iii) scenario analysis. In addition, significant technical and procedural enhancements for mitigating and monitoring cyber threats are under way.

**25. In July 2016, the Board approved a number of changes to the Fund's policy on Post Program Monitoring (PPM) that will make it more risk based, and enhance safeguarding Fund resources.** The changes call for PPM reports to go beyond the standard risk assessment expected of surveillance reports, including by focusing on risks related to the capacity to repay the Fund and applying quantitative analysis of risks and spillovers (for example, using quantified scenarios).

**26. Preparing for the future, the work on long-term trends and uncertainties draws strategic implications for the Fund under plausible and challenging scenarios.** A pilot exercise was performed in 2014 to stress test the robustness of the Fund's existing way of doing business and identify gaps to inform the strategic direction of the institution and future priorities. This work can provide insights on risks and vulnerabilities for the membership, for example by informing the work on the VE. Learning from this pilot, a new exercise was launched in October 2016, starting work at the staff level that will also involve management and the Executive Board.

**27. A number of initiatives related to emergent risks, vulnerabilities and spillovers facing countries took place over the last two years.** Interdepartmental groups have been created, such as the Tail Risk Group and the Spillover Taskforce. The Integrated Surveillance Decision (ISD) and 2015 *Guidance Note for Surveillance* have improved the analysis of risks and spillovers. The 2014 FSAP review recommended a deeper analysis of financial spillovers in countries with sufficiently granular data. In addition, progress has been made in the areas of cross-border linkages, capital flows, and policies to contain sovereign-bank feedback loops.

**28. The 2015 Guidance Note for Surveillance under Article IV Consultations strengthened the guidance in the area of risks and spillovers.** It clarifies concepts, spells out the main analytical tools and techniques to be used (including balance sheet analysis), and calls for quantified risk scenarios. It also provides specific questions for teams to consider when analyzing risks and spillovers as well as considerations for integrating the analysis into policy advice.

**29. Multilateral surveillance products have improved their coverage of risks and vulnerabilities.** The WEO has increased its attention to risks and alternative scenarios, and has integrated the previous standalone *Spillover Report* since Fall 2016. The GFSR has enhanced its focus on risks and financial stability. The Fiscal Monitor has increasingly focused on the analysis of fiscal risks.

**30. Prominent risk tools, including the G-RAM and the VE, have been strengthened.** The G-RAM is circulated to the Executive Board for information, and since mid-2015 it contains a time horizon, along with the source of risks and relative likelihood. The G-RAM is updated regularly to provide an up-to-date and consistent set of risks around the staff's baseline forecasts. The assessment of external risks in the country RAMs are expected to be guided by the G-RAM and area departments' views on regional risks. The VE continues to be strengthened through changes to help address evolving economic conditions, a broader coverage of countries, and new and/or improved risk assessment models. The VE is a cross-country risk exercise, which seeks to identify emerging global risks, straddling bilateral and multilateral surveillance. Over time there has been some methodological convergence in these exercises, especially with respect to real estate, corporate vulnerabilities, and financial sector risk assessments. The rise of 'frontier economies' accessing external financing during the global search for yield led to the adaptation of elements of the VEE into VE-LIC assessment.

**31. Further methodological progress at risk assessment has been made in a number of areas.** The recent FAD paper *Analyzing and Managing Fiscal Risks – Best Practices* provided tools and best practices on fiscal risks. A consultation process to strengthen the debt sustainability framework for Low-Income Countries (LICs) is under way. The second phase of the G20 Data Gaps Initiative began in January 2016 with an enhanced focus on risk identification and spillovers. In addition, SPR has developed a tool to monitor disorderly market conditions.

**32. Work is ongoing on risks and uncertainty related to financial and macro-financial issues.** Staff has been working on understanding the implications of the exit from unconventional monetary policies for emerging markets and on financial deepening (papers on *Emerging Market Volatility: Lessons from the Taper Tantrum*, and *Rethinking Financial Deepening: Stability and Growth in Emerging Markets*). Supported by an intensified internal training on macro-financial linkages and the use of sharper analytical tools, financial issues have taken a more prominent role in the Fund's surveillance. Staff have also enhanced focus on macro-financial linkages in bilateral surveillance, with macro-financial pilots in 67 country staff reports in 2016.

## D. Country and Institutional Context

**IEO Findings.** *The Fund has in some instances provided insufficient country specificity and institutional context in its analytical work and policy advice. More progress is needed in surveillance work to tailor policy advice to country circumstances. In the face of budget constraints, the Fund should manage better the trade-offs between the need for cross-country experience and the need for country-specific knowledge. The IEO acknowledges that selecting objective criteria to measure progress in this area is difficult.*

**33. To address the issue of inadequate country and institutional context, the Fund has conducted periodic internal reviews and sharpened its guidance with respect to surveillance and capacity development.** Tailoring policy advice to country circumstances is a priority of the Fund's surveillance, along with ensuring continuity in country teams. To this end, surveillance is being strengthened with further work devoted to structural reforms, fiscal space, and emerging macro-critical issues. In addition, technical assistance is made widely available to the membership and supports country-specific needs.

**34. The 2014 TSR emphasized the need to better tailor the teams' policy advice.** In the 2014 Action Plan of the Managing Director and subsequent 2015 paper *Initial Steps in Implementing the Managing Director's Action Plan for the 2014 Triennial Surveillance Review*, progress toward stronger surveillance is documented, notably with respect to better tailoring policy and expert advice. The latter paper provides a detailed action plan scorecard, with specific advice on the discussion of fiscal and structural policies. In line with these reports, the *2015 Guidance Note for Surveillance* emphasizes that staff should take into account country circumstances in the key operational areas of Article IV consultations, including risks and spillovers, and external sector assessment.

**35. Staff have addressed the issue of improving country and institutional context in surveillance through a number of actions.** In line with the 2014 TSR, there is a growing recognition that structural issues and political economy constraints are essential in assessing a country's macroeconomic challenges. Ongoing interdepartmental efforts are aimed at operationalizing the analysis of macro-structural issues in surveillance, including the compilation of analytical approaches and toolkits.

**36. To improve the quality of policy advice in developing countries, staff prepared specific guidance notes and produced cross-country analytical work,** including papers such as the *Staff Guidance Note on the Fund's Engagement with Small Developing States* and the *Staff Guidance Note on Macprudential Policy—Considerations for Low Income Countries*, as well as cross-country analysis in Regional Economic Outlooks. The recent *Methodological Note on EBA-Lite* encompasses ad-hoc methodologies for countries with special circumstances, which helps adapt the external sector assessment to member-specific circumstances.

**37. The Fund published a guiding framework for structural reforms, which has been applied to individual countries.** A staff note published in April 2016 set out a conceptual framework to help policymakers prioritize among reform measures. It emphasized the need to take into account the macroeconomic circumstances under which reforms are being carried out, notably the income level, the position in the economic cycle, and the resource space to finance reform. The IMF then applied this framework to outline reform priorities for individual G-20 countries in a staff note in July. Ongoing work focuses on operationalizing the guiding framework in surveillance—for example, by preparing a macrostructural toolkit to support country teams and reviewers.

**38. Staff prepared a note to help inform assessments of fiscal space.** A paper on assessing fiscal space was presented to the Board in June 2016. It brought together the various approaches developed by staff to outline a consistent set of considerations and indicators, especially for advanced and emerging markets. The purpose is to facilitate greater consistency and comparability across desks in assessing fiscal space while still applying judgment. Based on the Board discussion, the paper has been revised with an aim to operationalize the framework for a large set of countries in upcoming Article IV consultations.

**39. Staff have been working on newly emerging issues that will impact on macroeconomic policy formulation and will require tailored policy advice.** During the Heads of Departments Retreat in December 2015, it was agreed to work on a selective set of emerging macro-critical issues (including gender, climate change and inequality) guided by the country-specific degree of macro-criticality, the views of the authorities, and judgment by staff. A rigorous set of criteria, and a robust process of gaining knowledge and providing country specific advice has been set out. The work is being operationalized in pilot countries, and efforts are under way to include newly developed tools in surveillance for a wider range of Article IV consultations. Interdepartmental advisory groups are facilitating knowledge sharing and working with pilot country teams to help identify key questions of interest in each particular country. These efforts are meant to tailor staff's advice to country-specific needs (see Box 1). ICD, through its IET program, has dedicated over 15 percent of its core training to such new topics, including inequality, gender issues, climate change, role of technology, among others.

**40. Although mission chief tenure on country assignments remains below the target, steps have been taken to improve the handover of knowledge in country teams.** Recent trends, monitored through the Accountability Framework, suggest that the average mission chief tenure has increased since the financial crisis, but is still below the target of three years. The average mission chief tenure was 2.4 years in FY 2013, followed by a slight decline to 2.3 years in FY 2014, and no subsequent change up to mid-FY 2015. The 2016 Risk Report states that currently, one in 10 country teams have both the mission chief and all economists with less than one year of country-specific experience. The forthcoming HR strategy will look at this issue more broadly. Departments have also issued guidelines and recommended best practices, and have begun assessing how well staff and managers assist with desk transitions.

### Box 1. Operationalizing the Work on Emerging Macro-Critical Issues

The global environment requires that some issues outside the Fund's traditional area of operation be taken into account, subject to a list of criteria to prioritize among topics, to enable the Fund to cover issues before they reach a critical stage and to allow the design of policies that prevent adverse economic outcomes.

Topics need to: (i) have a material impact on macroeconomic stability, output, or welfare; (ii) be of relevance for a significant share of the membership or, if limited to a few countries, be of broader systemic importance; and (iii) be amenable to change through well-defined economic policy instruments (e.g. minimum wage, carbon-pricing, etc.) or institutional responses, rather than being purely cultural, social or political. The Fund is currently working on six topics that meet the above three criteria, namely climate change, inequality, gender issues, demographics and migration, infrastructure investment, and labor markets.

The process to handle new topics involves the creation of working groups or Advisory Groups if issues do not have a natural departmental home to build the expertise required. The Advisory Groups on specific issues create a forum for exchange and provide analytical tools. Outside experts could be hired on a temporary basis, and collaboration with other IFIs could be considered (for example, RES recently hosted OECD staff as visiting scholars). The development of an analytical framework (e.g. via an SDN) and the selection of pilot cases prepare the ground for the integration of the analysis in country-specific work.

With regard to operationalizing work on gender, inequality and energy/climate in Article IV consultations staff's analysis on gender (8 initial pilots, with 5 volunteers), inequality (9 pilots, with 2 volunteers), and energy/climate (8 pilots, with 5 volunteers) was discussed with the authorities and incorporated into surveillance reports.

The experience with the first set of pilot countries in operationalizing these issues was successful. To give but a few examples, the Ministry of Finance of Iceland showed significant interest in the IMF team's contribution on gender budgeting during the Article IV consultation and requested additional assistance. The 2016 India Article IV consultation included a presentation at the Ministry of Finance. The working paper "Women Workers in India: Why so Few Among so Many?" received extensive coverage in both international and Indian media outlets. Forthcoming work includes additional gender analysis in other Article IV consultations (e.g., Jordan, Niger, Rwanda), and cross country-studies examining gender inequality and (i) growth; (ii) output diversification; (iii) income inequality; (iv) human capital accumulation and productivity. The Fund's expertise on inequality will continue in new pilot countries in the context of both program and surveillance work. Examples of countries and topics include domestic resource mobilization in Honduras; agricultural subsidy reform in Malawi; rural poverty and inclusive growth in Zambia; impact of public tax and expenditure policy on household incomes and rural poverty in Togo, regional income inequalities in Poland, effects and trends in income polarization in the United States, and identifying inequality drivers and designing options to improve income distribution in Mongolia. Finally, examples of future efforts to operationalize energy/climate issues in new pilot countries include addressing extreme vulnerability to sea level rise in Seychelles; vulnerability of agriculture and infrastructure to climate change in Zimbabwe; framework to evaluate carbon/coal taxes, trading systems, and other mitigation instruments in China; improving macro-fiscal framework for climate risks in Sri Lanka; and macro impact of natural disasters and fiscal policy implications in Myanmar.

**41. Departments are involved in capacity development activities on topical issues tailored to the evolving needs of member countries.** For example, MCM provides Technical Assistance (TA) on many issues, including those related to financial stability, Central Bank governance, Basel III implementation, and risk-based and consolidated supervision. FAD conducts TA missions on revenue administration, tax policy, and public financial management. STA delivers training and TA on data dissemination, real sector statistics, government statistics, financial sector statistics, external sector statistics, and related topics. LEG delivers training and TA on anti-money laundering, anti-corruption, and a number of other legal areas. ICD offers training to country officials on a broad range of topics—including monetary, fiscal, and financial issues—in a continued effort to respond to country-specific needs. The Fund has also begun implementing a new approach tailored to the absorptive capacity of fragile states, with a focus on training and follow-up and results-based monitoring. Partnerships with donors, particularly through regional technical assistance centers and thematic trust funds, help leverage Fund capacity development to meet members' needs.

## E. Evenhandedness

**IEO Findings.** *The IMF has been seen in some instances as lacking evenhandedness in its analysis or treatment of member countries, while recognizing that perceptions of a lack of evenhandedness are difficult to deal with. Addressing the IMF's governance deficiencies could help mitigate this perception. The 2014 TSR confirmed that while there are no systematic evenhandedness issues, there is a perception among some member countries that there is an evenhandedness problem.*

**42. The Fund has made efforts to limit the perception of lack of evenhandedness, as it pertains to its analysis, influence, and candor.** The Fund's surveillance practices aim for the application of balanced views and advice to all members. Recent actions have clarified the Fund's approach to evenhandedness in surveillance and improved its institutional governance.

**43. The 2014 Managing Director Action Plan called for progress in addressing evenhandedness.** It detailed how the recommendations of the 2014 TSR were to be taken forward, and, subsequently, the 2015 paper *Initial Steps in Implementing the Managing Director's Action Plan for the 2014 Triennial Surveillance Review* showed progress on evenhandedness. The 2014 TSR recommended developing a clearer understanding of how to gauge "evenhandedness of surveillance" by using equal risk-adjusted "inputs" to bilateral surveillance, where inputs are calibrated to country circumstances based on domestic and cross-country risks.

**44. The 2015 Guidance Note for Surveillance under Article IV Consultations addresses the perceived asymmetry of treatment in candor.** The note states that "policy advice for all members, and especially for systemic economies, should be clear, concrete, and actionable" and "for systemic economies, messages should be candid, properly reflecting their systemic implications." In the same vein, the recent Managing Director's Global Policy Agenda (April 2016) emphasizes that surveillance will focus on providing candid advice on policy setting and identifying where countries have the space to do more to reinforce growth.



**45. The Board has adopted an approach to evenhandedness in surveillance following the recommendation of the 2014 TSR.** The paper *“Evenhandedness of Fund Surveillance—Principles and Mechanism for Addressing Concerns”* articulates an approach to assessing evenhandedness based on the “inputs” or the way surveillance is conducted, rather than simply the “outcomes” (that is, policy advice) from surveillance. Inputs to surveillance should be based on the principle of “uniformity of treatment,” which means that countries in similar circumstances should be treated similarly. The inputs that shape surveillance should be adjusted to reflect domestic and/or systemic risk factors, and be tailored to country circumstances. Those inputs include: (i) allocation of resources; (ii) depth of risk and spillovers analysis; (iii) analytical approaches and tools; (iv) selection of policy themes; (v) reporting of the authorities’ views; and (vi) approach to contentious issues; among others.

**46. The Board also adopted a mechanism to assess concerns reported by members on evenhandedness in surveillance.** The mechanism is intended to serve as a backstop to assess specific concerns and promote better practices going forward. A dedicated mailbox to report these concerns is already operative and the Evenhandedness Committee has been constituted in October 2016. This committee will operate under Management’s oversight.

**47. The framework for guiding evenhanded surveillance is a new and untested approach and would need to adapt and evolve as the Fund gains experience.** The 2019 Comprehensive Review of Surveillance would provide the appropriate opportunity for a thorough evaluation of the principles and mechanism.

**48. The implementation of the 2010 quota and governance reform reinforces the credibility and representativeness of the Fund.** According to the IEO, the perception of lack of evenhandedness is rooted in the uneven distribution of decision-making power within the IMF. The 2010 reform is a major step forward for IMF governance, increasing the role of dynamic EMDCs.

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